Washington State Department of
Labor & Industries

Workers' Compensation Program

An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012
Olympia, Washington



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Washington State Office of Financial Management
Washington State Investment Board

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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Washington State Department of
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Keep Washington Safe and Working

STATE OF WASHINGTON

DEPARTMENT OF LABOR AND INDUSTRIES

October 25, 2012

The Honorable Christine Gregoire, Governor
Honorable Members of the Legislature
Director of Office of Financial Management
Washington State Citizens
Olympia, Washington 98504

RE: Comprehensive Annual Financial Report

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2012.

L&I is fully responsible for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor has issued an unqualified ("clean") opinion on the Workers' Compensation Program financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements the information provided in this letter of transmittal and should be read together with it.

Following the MD&A are the basic financial statements, notes to the basic financial statements, the required supplementary information, and the combining and individual account financial schedules. The independent actuarial opinion and the statistical section complete the CAFR.

PROFILE OF WORKERS' COMPENSATION PROGRAM

L&I, an agency of Washington State, is responsible for managing the state's workers' compensation system; enforcing the Washington Industrial Safety and Health Act; providing safety and health consultations and information; enforcing wage and hour, child labor and family leave requirements; managing the state's Crime Victims Compensation Program; registering contractors and apprentices; inspecting electrical work, elevators, boilers and factory-assembled structures; and issuing licenses for certain skilled trades. L&I headquarters is located at 7273 Linderson Way SW in Tumwater, Washington. There are 18 additional L&I field offices across Washington State that enable us to respond to specific needs in different localities.

The workers' compensation system has existed in Washington State for 101 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund until 1971, when the system underwent a major overhaul. In 1971, the Legislature expanded the scope of coverage to virtually all workers and created an option for qualified employers to self-insure. The Self-Insurance Program allows employers with sufficient financial resources to self-insure, thus paying the cost of claims for their injured workers from their own funds and also assuming responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund managed by L&I. There are approximately 365 employers who are self-insured, covering approximately one-quarter of all workers in Washington. The state also has an optional financial incentive program, called the Retrospective Rating Program, to help qualifying employers insured with the State Fund to reduce their industrial insurance costs. Employers who join the Retrospective Rating Program receive partial refunds if their claim costs are lower than expected, but must pay additional premiums if their claim costs are higher than expected.

The State Fund Workers' Compensation Program covers 166,000 employers and approximately 2.42 million workers statewide. Total premiums assessed in Fiscal Year 2012, including both the employer and worker portions, in the State Fund were $1.65 billion. Over 84,000 claims were accepted in Fiscal Year 2012; about 80 percent of the accepted claims were medical only and received no compensation for time off work. Approximately 39,000 claims are active in any given month, of which about 20,000 are receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In the same year, retraining plans were completed by 595 injured workers who were not able to return to their occupations after injury.

BUDGET CYCLE

The Workers' Compensation Program operates as an enterprise fund made up of six accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The final 2011-2013 appropriated budget for administering the Workers' Compensation Program is $530,520,000. This budget includes $16,808,000 of federal funds dedicated to the Safety & Health Assessment & Research for Prevention (SHARP) program and the Division of Occupational Safety and Health (DOSH). The allotted administering budget for Fiscal Year 2012 was $267,128,000.

The benefit expense portions of the accounts that make up the program are non-appropriated and non-allotted. The cost of providing medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries and illnesses, as well as Stay at Work reimbursements and Structured Settlement agreements, is financed through premiums collected from employers and workers.

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, a vibrant high-tech industry has developed, including such worldwide companies as Microsoft and Amazon.com. Other Washington companies, such as Starbucks and Costco, also have national reputations. Most of these larger companies are self-insured, but the State Fund covers a diverse group of smaller companies in such industries as professional and business services, health services, and construction. The state also has the largest system of functioning ferries in the country and a vibrant agriculture sector, including a growing selection of wineries.

Washington is comprised of ten major metropolitan areas and vast regions of wilderness and farmland. Of the ten metropolitan areas, only four are east of the Cascade Mountains. The Seattle/Bellevue/Everett/Tacoma metropolitan area alone accounts for almost half of the state's non-farm employment.

EFFECTS OF THE ECONOMIC RECESSION AND SLOW RECOVERY

Washington fared about average in the nation's worst economic recession since the Great Depression. Since the official end of the recession in June 2009, Washington has lagged slightly behind the nation as a whole in terms of job growth. The unemployment rate is still around eight percent. Although we have regained about half the 200,000 jobs lost during the recession, this understates our real job deficit. Under normal job growth conditions, our economy would have created 250,000 jobs since employment peaked in 2007. Construction, manufacturing, trade, professional services, and leisure and hospitality were hit hardest during the recession. Most sectors are now experiencing growth, albeit slow. Construction, however, continues its decline, and the government sector, which grew slowly during the recession, is now declining.

Construction was hit particularly hard during the recession and has yet to recover. While total employment is still down four percent from its peak (as of May 2012), construction employment is 34 percent off its peak. Construction is a relatively hazardous industry and plays an important role in the state's workers' compensation system. Construction accounted for 30 percent of workers' compensation premiums in 2007 but only 20 percent in 2011. The decrease was due to the relative decline in employment in the construction industry. Still, one in four open compensable claims in 2011 were from the construction industry. There is a particularly large concentration of claims from the construction industry that have been in the system longer than three years. Many of these claimants came into the system during the boom in construction from 2003 to 2007, and the workers now have little chance of returning to construction-related employment. Helping these workers to return to work will be a major challenge in the coming years.

Several beneficial cost trends in workers' compensation continue. Most importantly, the frequency of long-term disability claims in Washington continues to decline. The decline is likely due to many factors, including the work of the DOSH to raise awareness of workplace dangers, businesses following improved safety practices, and the aging of the workforce, as older workers have fewer claims. L&I has also successfully held down medical cost growth through a number of measures, including the use of best practices through the Centers for Occupational Health and Education, fee schedules for medical services, and the use of generic drugs. The beneficial effects of these cost trends have been somewhat offset by renewed growth in wages. Fortunately, however, the duration of compensable claims has been fairly steady over the year after increasing during and just following the recession. Contributing factors in holding down claim duration include new Lean management processes that focus on removing delays in the provision of services to injured workers. Particular progress has been made in providing vocational rehabilitation services in a timely and efficient manner. Washington's new Stay at Work Program has also been a success and should have a positive impact on long-term disability claims and improved outcomes for injured workers while providing incentives for employers to keep workers on the job.

CURRENT ECONOMIC ACTIVITY AND OUTLOOK

An on-again, off-again economic recovery characterized by slow job growth continues. The forecast as of June 2012[1] is that employment is expected to grow at about two percent annually through 2015. This is not enough to cause much of an improvement in the unemployment rate, which has been above eight percent for 40 months. Not since the 1930's has there been such a long period of economic stagnation. The next worst period was the double-dip recession in the early 1980's, when the unemployment rate was above eight percent for 26 months. The ending of extended unemployment benefits may bring down the unemployment rate as people drop out of the labor force, but is unlikely to actually improve the labor market.

Uncertainty is being added by sovereign debt problems in Europe that have dragged on for years. The inability of Europe to find a resolution to its banking crisis is creating very slow economic growth, possibly recession, in many European countries and is depressing U.S. exports to Europe. Further, uncertainty in European financial markets is leading to uncertainty at home, and the U.S. stock market remains jittery.

U.S. political strife, caused in part by the run-up to national elections set for November 2012, is serving to halt much progress in U.S. domestic fiscal policy. In particular, a "fiscal cliff" looms

[1] Washington Economic and Revenue Forecast, June 2012.

if Congress fails to come up with a budget compromise by the end of 2012. According to the Congressional Budget Office (CBO)[2], the federal budget deficit is set to automatically fall in 2013, owing to scheduled increases in taxes and reductions in spending. The CBO predicts that this fiscal restraint may push the U.S. back into recession in the first half of 2013.

The stock market has reflected this uncertain economic environment and has experienced considerable volatility in 2012. Further, the Federal Reserve Board announced in June that the current and expected slow economic conditions will "warrant exceptionally low levels of the federal funds rate at least through late 2014[3]". Low interest rates will limit the rates of return that workers' compensation carriers are likely to earn on their investments, putting increased pressure on premium rates to cover benefit costs.

LONG-TERM FINANCIAL PLANNING

L&I has an established investment policy designed to maintain solvency of the funds and to keep premium rates stable. The Washington State Investment Board (WSIB) manages the L&I portfolio and meets regularly to make decisions on improving investment results and striking a balance between risk and return.

During the 2011 Legislative Session, the Legislature passed historic changes to the workers' compensation system, including the Stay at Work and Structured Settlement Programs. Both of these programs were implemented by L&I during Fiscal Year 2012 and have the potential to impact the choices for injured workers and the rates paid by employers. Also, a significant effort is underway to create a Medical Provider Network, which is expected to improve medical treatment of injured workers.

The Stay at Work Program provides a financial incentive for employers to bring their injured workers quickly and safely back to light-duty or transitional work. Eligible employers can be reimbursed up to 50 percent of the base wages paid to the injured workers, as well as $1,000 in training materials, $2,500 in tools, and up to $400 in clothing for each claim. As of June 30, 2012, L&I has issued $3.9 million in reimbursements to 858 employers and helped 2,014 injured workers remain on the job since the program was signed into law on June 15, 2011. These numbers continue to increase. The program is projected to save $32 million annually by keeping workers on the job and reducing the chance of long-term disability.

Structured settlement agreements provide a new option for resolving the non-medical portion of industrial insurance claims for injured workers over the age of 55 (dropping to 53 in 2015 and 50 in 2016) who meet certain other requirements. This is a voluntary program in which those who qualify can settle their claims and receive a financial settlement on a payment schedule. Since January 2012, L&I has received 283 State Fund structured settlement applications.

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[2] "Economic Effects of Reducing the Fiscal Restrain that is Scheduled to Occur in 2013," Congressional Budget Office, May 2012.
[3] "Economic Outlook and Policy," before the Joint Economic Committee, U.S. Congress, Washington DC June 7th, 2012, Chairman Ben S. Bernanke.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its CAFR for the fiscal year ended June 30, 2011. This was the second consecutive year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

As in the work and service we provide every day, this CAFR represents our commitment to maintain excellence in financial reporting, and the financial statements are in conformance with the highest standards of financial accountability. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of L&I, the Washington State Office of Financial Management, and the WSIB.

Sincerely,

Judy Schurke
Director

Carole Washburn
Deputy Director
Operations

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State Department of Labor & Industries

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

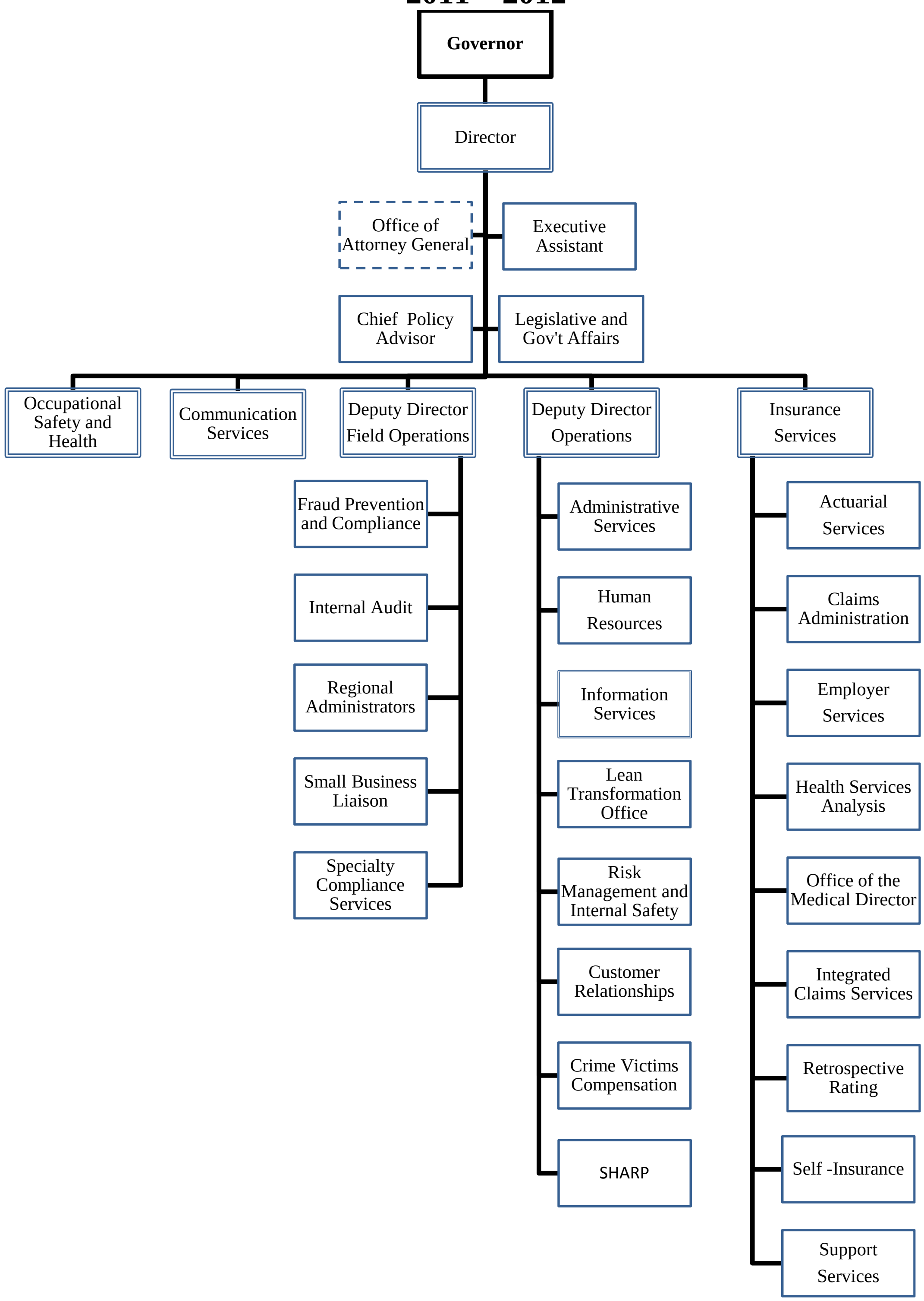
Executive Director

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Washington State Department of
Labor & Industries

Organization Chart
2011 – 2012



Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Financial Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

October 25, 2012

Judy Schurke, Director
Department of Labor and Industries
Olympia, Washington

We have audited the accompanying basic financial statements of the Workers' Compensation Program, an enterprise fund of the state of Washington, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of the Washington State Department of Labor and Industries. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Labor and Industries' Funds of the state of Washington as managed by the Washington State Investment Board, which include the Program's investments and related investment income as discussed in Note 2. These investments represent 95 percent, 100 percent and 33 percent, respectively, of the assets, net assets, and total revenues of the Program. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Workers' Compensation Program of the state of Washington, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Labor and Industries' Funds of the state of Washington as managed by the Washington State Investment Board were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the activity of the Workers' Compensation Program and do not purport to, and do not present the financial position of the state of Washington as of June 30, 2012, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers' Compensation Program as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Workers' Compensation Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other

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matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 24, schedules of claims development information on 63 through 64, reconciliation of claims liabilities by plan on 65 and information on postemployment benefits other than pensions on page 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Worker's Compensation Program's basic financial statements. The accompanying information listed as combining and individual fund schedules and independent actuarial opinion on pages 69 through 77 are not a required part of the basic financial statements but are supplementary information presented for purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Management's Discussion and Analysis

This section of the state of Washington Workers' Compensation Program Comprehensive Annual Financial Report presents management's discussion and analysis of the financial performance of the Workers' Compensation Program for the fiscal year ended June 30, 2012. This discussion should be read in conjunction with the accompanying basic financial statements. The basic financial statements, notes to the basic financial statements, and this discussion are the responsibility of the Workers' Compensation Program management.

Financial Highlights

Condensed Financial Snapshot
(in millions)

	As of and For the Fiscal Year Ended June 30, 2012	As of and For the Fiscal Year Ended June 30, 2011	$ Change	% Change
Total Assets	$ 14,121	$ 15,517	$ (1,396)	(9.0%)
Total Liabilities	22,820	25,378	(2,558)	(10.1%)
Total Revenues Earned	3,081	3,026	55	1.8%
Total Expenses Incurred	1,919	1,219	700	57.4%
Total Net Assets (Deficit)	$ (8,699)	$ (9,860)	$ 1,161	11.8%

- Total assets decreased 9.0 percent from the prior fiscal year, mainly due to a securities lending collateral decrease of $2.217 billion, offset by an $809 million increase in investments. Both assets and liabilities from securities lending activities decreased by $2.217 billion as compared to last fiscal year-end. The Washington State Investment Board (WSIB) changed the custodian bank acting as agent in securities lending transactions from JPMorgan to State Street, effective July 1, 2012. In anticipation of the custodian bank conversion, the WSIB recalled all securities on loan. Thus, there were no assets on loan and no collateral held related to securities lending transactions on June 30, 2012. Additional information on security lending collateral is included in Note 2.B.2. The investment balance grew by $809 million compared to the prior year-end due to prudent management by the WSIB, despite continued slow economic growth.

- Total liabilities decreased 10.1 percent from the prior year, mainly due to the securities lending collateral decrease and due to a $347 million decrease in claims payable. Claims payable decreased $798 million in the Supplemental Pension Account because of the cost-of-living adjustment (COLA) rate freeze and lower payout projections, but was offset by a $340 million increase in Accident and Medical Aid Accounts claims payable, which was the result of an increase in current accident year incurred but not reported (IBNR) and a reduction in the non-pension discount rate.

- Total expenses incurred increased 57.4 percent from the prior year primarily due to a $706 million increase in claims expense. Operating expenses incurred, excluding claims expense, decreased $5.7 million, or 1.7 percent, from prior year-end totals, largely due to decreases in goods and services expense of $3.2 million and depreciation expense of $1.4 million.

Overview of the Basic Financial Statements

The Workers' Compensation Program is accounted for as an enterprise fund of the state of Washington, reporting business activities under the accrual basis of accounting, much like a private business enterprise.

These basic financial statements report the financial condition and results of operations for seven accounts, including the Accident, Medical Aid, Pension Reserve, Supplemental Pension, Second Injury, Self-Insured Employer Overpayment Reimbursement, and Industrial Insurance Rainy Day Fund Accounts, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, and Pension Reserve Accounts represent the Workers' Compensation Program Basic Plan.

The Rainy Day Fund was created by the Legislature during the 2011 session, with an effective date of June 15, 2011. The fund will hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, balances in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. There is no activity to report for this account during Fiscal Year 2012.

For the fiscal year ended in 2012, the basic financial statements show results of operations at the roll-up level. Detailed financial information for the individual accounts can be found in the Supplementary Information on pages 69-71 of this financial report.

This discussion and analysis serves as an introduction to the Workers' Compensation Program basic financial statements, which consist of the following components:

The Statement of Net Assets provides information about the program's assets and liabilities and reflects the program's financial position as of June 30, 2012. It can be found on page 27 of this report.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects both operating and nonoperating revenues and expenses for the fiscal year. It can be found on page 28 of this report.

The Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and pooled investments during the fiscal year. It can be found on page 29 of this report.

The Notes to the Basic Financial Statements are an integral part of the basic financial statements and are essential to a full understanding of the Workers' Compensation Program's financial position and results of operations presented in the basic financial statements. They can be found on pages 31-60 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Assets (in millions)				
		June 30, 2012		June 30, 2011
Assets				
Current assets and noncurrent receivables	$	731	$	2,935
Investments, noncurrent		13,322		12,513
Capital assets, net		68		69
Total Assets		14,121		15,517
Liabilities				
Current liabilities		1,947		4,127
Noncurrent liabilities		20,873		21,250
Total Liabilities		22,820		25,377
Net Assets (Deficit)				
Invested in capital assets, net of related debt		53		51
Unrestricted		(8,752)		(9,911)
Total Net Assets (Deficit)	$	(8,699)	$	(9,860)

Current assets - Current assets decreased during Fiscal Year 2012 by $2.204 billion. This change largely resulted from the securities lending collateral decrease of $2.217 billion, offset by a $13 million increase in receivables. Most of the receivables increase is from the estimated premiums due for the current quarter ending June 30, 2012. The estimated receivables have increased compared to June 30, 2011, as a result of an increase in hours reported.

Noncurrent investments - Noncurrent investments increased during Fiscal Year 2012 by $809 million. This increase is mainly from an increase in fixed income securities of $890 million due to favorable market conditions, offset by a $22 million decrease in money market funds and a $59 million decrease in equity investments. Money market funds fluctuate from year to year, depending on trading volumes and cash needs. Equity investments decreased due to negative investment returns in the equity markets.

Current liabilities - Current liabilities, other than claims payable, decreased during Fiscal Year 2012 by $2.214 billion. This decrease is mainly the result of the securities lending collateral decrease as explained above.

Claims Payable - Total claims payable (included in current and noncurrent liabilities) was $22.6 billion at the end of Fiscal Year 2012, compared to $22.9 billion for the previous fiscal year, representing a 1.3 percent decrease. This decrease is primarily due to a net decrease in benefit liabilities. Benefit liabilities decreased $1.5 billion, resulting primarily from a reduction in the

Supplemental Pension Account's long-term inflation rate assumption to reflect more recent lower inflation rates and from lower estimated payout projections, but were offset by a $1.1 billion increase when the interest rate used to discount future non-pension account payments was reduced from 2.5 to 2.0 percent. Additional information on the discount rate and inflation rate changes can be found in Note 1.D.4 of this report.

Schedule of Changes in Benefit Liabilities (Included in Claims Payable) *
(in millions)

	June 30, 2012	June 30, 2011
Benefit liabilities, beginning of year	$ 22,448	$ 23,551
New liabilities incurred, current year	1,687	1,820
Development on prior years		
Discount accretion	666	687
Change in discount rate	(374)	-
Other development on prior liabilities	(430)	(1,693)
Claim payments	(1,937)	(1,963)
Establishing self insurance second injury pension awards	-	46
Change in benefit liabilities	(388)	(1,103)
Benefit liabilities, end of year	$ 22,060	$ 22,448

* Excludes loss adjustment expense liabilities.

Total net assets (deficit) - The Workers' Compensation Program's deficit decreased $1.2 billion during Fiscal Year 2012, ending the year with a deficit balance of $8.7 billion. This deficit consists of a $10.7 billion deficit in the Supplemental Pension Account, offset by net asset balances in the Accident, Medical Aid, and Pension Reserve Accounts of $553 million, $973 million, and $398 million, respectively. The Second Injury Account and Self-Insured Overpayment Reimbursement Account have a combined net asset balance of $30 million. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 7 of this report.

Changes in Net Assets
(in millions)

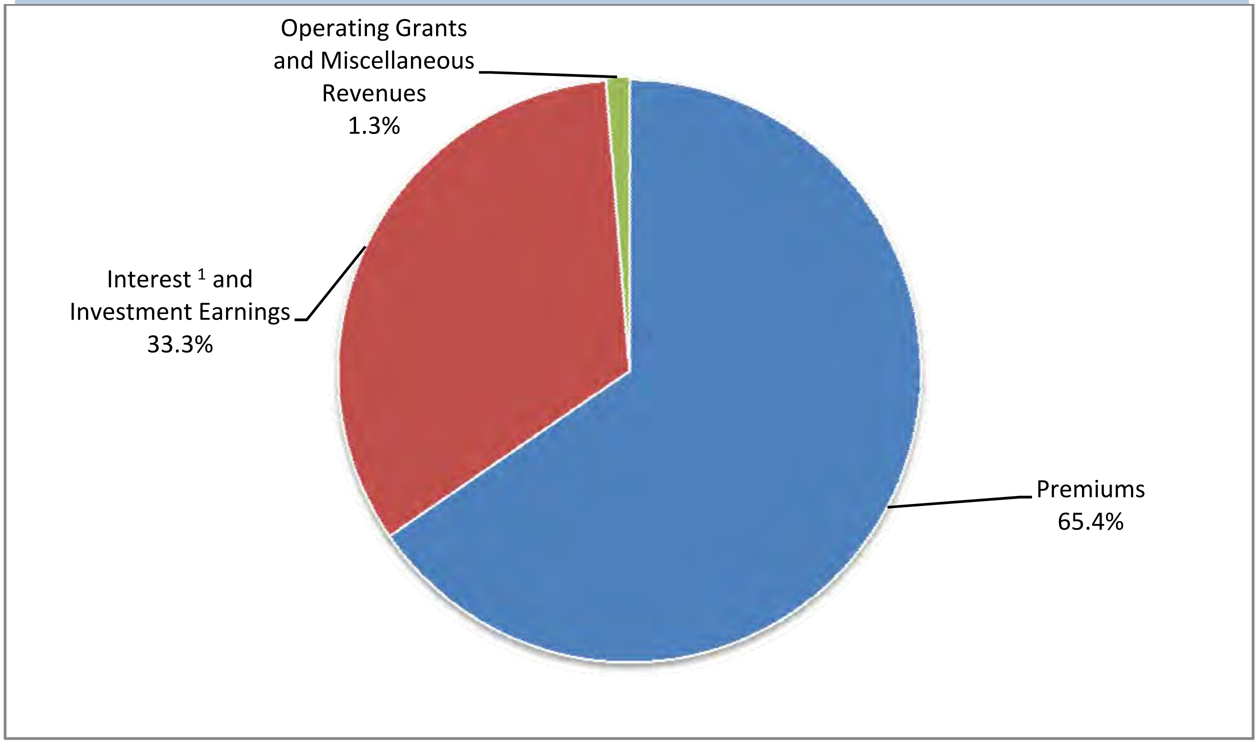
	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011
Operating Revenues		
Premiums and assessments, net	$ 2,015	$ 1,983
Miscellaneous revenues	48	52
Total Operating Revenues	2,063	2,035
Nonoperating Revenues		
Earnings on investments	1,010	982
Other revenues	8	9
Total Revenues	3,081	3,026
Operating Expenses		
Salaries and wages	136	136
Employee benefits	54	51
Personal services	8	6
Goods and services	69	73
Travel	4	3
Claims	1,594	888
Depreciation	7	8
Miscellaneous expenses	46	53
Total Operating Expenses	1,918	1,218
Nonoperating Expenses		
Interest expense	1	1
Total Expenses	1,919	1,219
Income (Loss) before Transfers	1,162	1,807
Net Transfers	-	-
Change in Net Assets (Deficit)	1,162	1,807
Net Assets (Deficit) - Beginning of Year	(9,860)	(11,667)
Net Assets (Deficit) - End of Year	$ (8,698)	$ (9,860)

Premiums and assessments revenues, net - Net premiums and assessment revenues during Fiscal Year 2012 were $2.015 billion compared to $1.983 billion for Fiscal Year 2011, an increase of $32 million, as a result of an increase in the number of hours reported by employers, an increase in the number of employer accounts, and changes in premium rates. In Fiscal Year 2011, employers reported 3.100 billion hours worked; this figure increased to 3.183 billion hours for Fiscal Year 2012.

Earnings on investments - The earnings on investments increased $27.8 million from the prior fiscal year, due almost entirely to the increase in net realized and unrealized capital gains. The fixed income securities experienced significant appreciation due to the market environment in Fiscal Year 2012. Bond yields decreased, causing the bond markets to rally.

The following chart provides additional detail on the distribution of revenues by source during Fiscal Year 2012.

Fiscal Year 2012 Revenues by Source

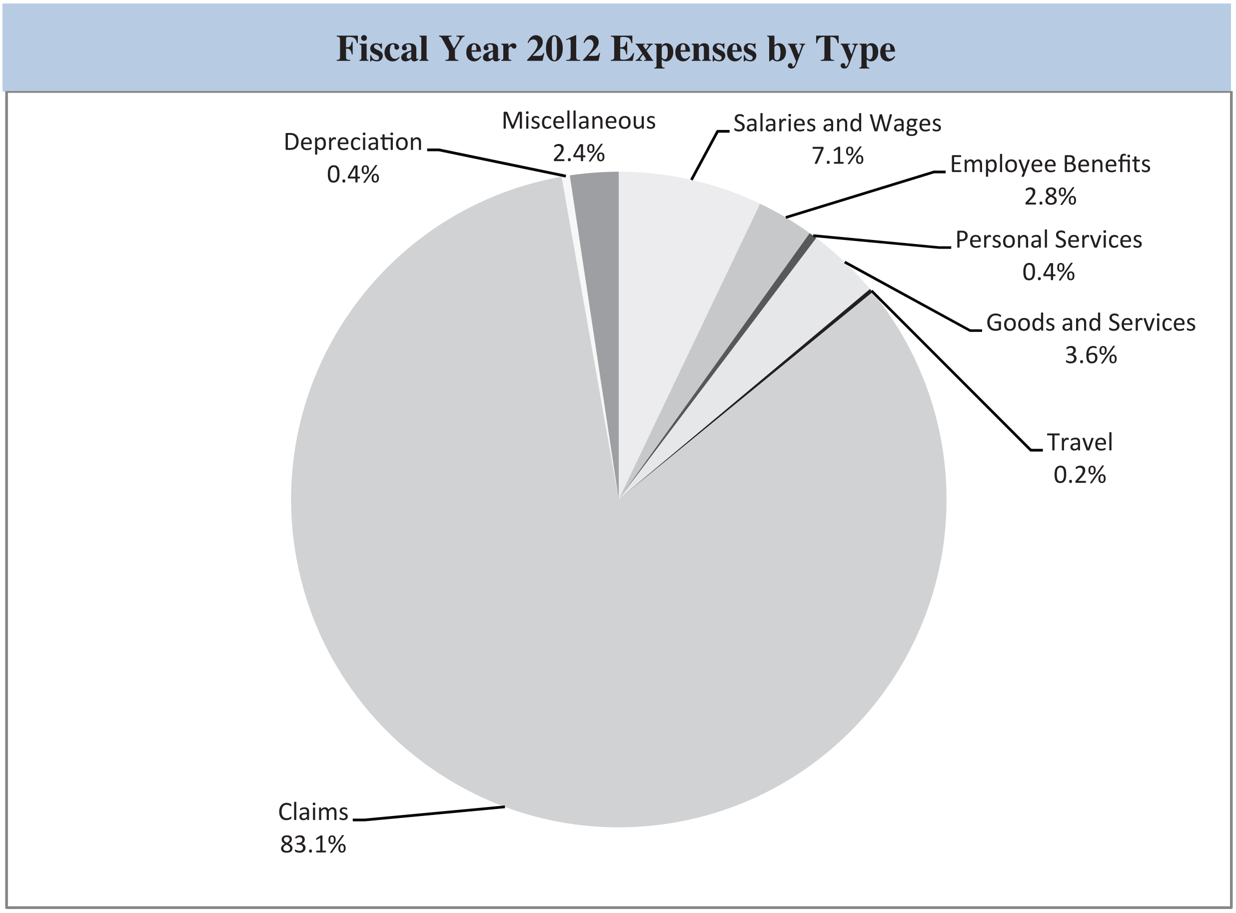


[1]The above chart groups interest earnings with investment earnings; however, interest earnings are categorized with miscellaneous revenues on the Statement of Revenues, Expenses, and Changes in Net Assets.

Claims expenses - Claims expenses for Fiscal Year 2012 increased $706 million, or 79.5 percent, in Fiscal Year 2012, compared to Fiscal Year 2011. Claims expenses include two main components: payments to beneficiaries and the change in claims payable. Claim payments to beneficiaries declined $27 million due to a temporary COLA freeze, reduction in claim frequency, lower insurance exposure in the last several years, and our ability to contain medical cost growth. Claims payable increased $736 million, because Fiscal Year 2011 savings from the workers' compensation reform was greater than Fiscal Year 2012 savings from the net decrease in benefit liabilities due to changes in the discount rates, inflation rates, and payout projections.

Operating expenses - Operating expenses for Fiscal Year 2012, other than claims expenses, were $324.4 million, compared to $330.1 million in Fiscal Year 2011. Most of the $5.7 million decrease was due to decreases in goods and services and depreciation, offset by higher health insurance premiums, increased management and organization services contract expenses, and a higher retirement contribution rate.

The following chart provides additional detail on the distribution of expenses by type during Fiscal Year 2012.



Capital Asset and Debt Administration

Capital assets - Investment in capital assets, net of accumulated depreciation, as of June 30, 2012, was $67.6 million. This reflects a net decrease of $1.6 million from the previous year. This net decrease is made up of $6.6 million in current year depreciation expense, offset by a $4.1 million increase in internally developed software primarily related to reform programs, and a $0.9 million increase in other capital asset additions. Additional information on capital assets can be found in Note 1.D.6 and Note 5 of this report.

Bonds payable - Bond proceeds provided funding for the acquisition and construction of the building and grounds for the Department of Labor & Industries' headquarters in Tumwater. As of June 30, 2012, the Workers' Compensation Program had $14.9 million in outstanding bonds payable. Scheduled principal payments in the amount of $3.2 million were paid during the Fiscal Year 2012. Additional information on the bonds can be found in Note 6.A of this report.

Potentially Significant Matters with Future Impacts

Expected slow economic growth will continue to have an impact on investment balances, as well as realized and unrealized earnings.

Requests for Information

This report is designed to provide a general overview of the Workers' Compensation Program and illustrate the program's financial condition to interested parties. If you have questions about this report or need additional financial information, please contact the Chief Accounting Officer at the Department of Labor & Industries, P.O. Box 44833, Olympia, Washington 98504-4833.

The Workers' Compensation Program Comprehensive Annual Financial Report is also available at the Department of Labor & Industries' website at http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Default.asp.

In accordance with the Revised Code of Washington (RCW) 51.44.115, the Department of Labor & Industries also publishes a Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) annually. This report is prepared in compliance with statutory accounting practices and principles and is also available at the website listed above.

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Assets
June 30, 2012

ASSETS		
Current Assets		
Cash and cash equivalents	$	39,356,881
Trust cash		89,476
Trust investments		3,954,000
Receivables, net of allowance		686,635,317
Receivables from other state accounts and agencies		45,327
Receivables from other governments		1,144,420
Inventories		219,662
Total Current Assets		731,445,083
Noncurrent Assets		
Investments, noncurrent		13,321,821,917
Capital assets, net of accumulated depreciation		67,583,303
Total Noncurrent Assets		13,389,405,220
Total Assets	$	14,120,850,303
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Current Liabilities		
Accounts payable	$	4,999,430
Deposits payable		6,824,322
Accrued liabilities		139,378,465
Bonds payable, current		3,400,000
Payables to other state accounts and agencies		8,595,491
Unearned revenues		7,688,616
Claims payable, current		1,776,096,000
Total Current Liabilities		1,946,982,324
Noncurrent Liabilities		
Claims payable, net of current portion		20,820,254,000
Bonds payable, net of current portion		11,475,000
Other long-term liabilities		12,089,490
Other postemployment benefits		29,006,132
Total Noncurrent Liabilities		20,872,824,622
Total Liabilities		22,819,806,946
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt		52,708,303
Unrestricted		(8,751,664,946)
Total Net Assets (Deficit)	$	(8,698,956,643)

The notes to the basic financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

OPERATING REVENUES		
Premiums and assessments, net of refunds	$	2,014,840,871
Miscellaneous revenue		47,964,427
Total Operating Revenues		2,062,805,298
OPERATING EXPENSES		
Salaries and wages		136,406,309
Employee benefits		54,379,035
Personal services		8,012,652
Goods and services		69,194,038
Travel		3,778,809
Claims		1,594,191,964
Depreciation		6,633,587
Miscellaneous expenses		45,945,944
Total Operating Expenses		1,918,542,338
Operating Income		144,262,960
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		1,009,687,904
Other revenues		8,420,360
Interest expense		(839,288)
Total Nonoperating Revenues (Expenses)		1,017,268,976
Income Before Transfers		1,161,531,936
Transfers in		303,272,901
Transfers out		(303,272,901)
Net Transfers		-
Increase in Net Assets		1,161,531,936
Net Assets (Deficit), July 1		(9,860,488,579)
Net Assets (Deficit), June 30	$	(8,698,956,643)

The notes to the basic financial statements are an integral part of this statement.

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,034,941,662
Payments to/for beneficiaries		(1,944,569,669)
Payments to employees		(186,575,889)
Payments to suppliers		(82,458,038)
Other		6,399,402
Net Cash Flows from Operating Activities		(172,262,532)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in		311,643,853
Transfers out		(311,643,853)
Operating grants received		7,331,186
License fees collected		100,740
Net Cash Flows from Noncapital Financing Activities		7,431,926
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid		(897,376)
Principal payments on bonds payable		(3,205,000)
Acquisitions of capital assets		(5,160,026)
Net Cash Flows from Capital and Related Financing Activities		(9,262,402)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest		478,432,038
Receipt of dividends		6,842,915
Investment expenses		(3,955,175)
Proceeds from sale of investment securities		6,815,336,012
Purchases of investment securities		(7,121,711,980)
Net Cash Flows from Investing Activities		174,943,810
Net increase in cash and cash equivalents		850,802
Cash & Cash Equivalents, July 1		38,506,079
Cash & Cash Equivalents, June 30	$	39,356,881
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$	144,262,960
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation		6,633,587
Change in Assets: Decrease (Increase)		
Receivables		80,899,292
Inventories		(124,784)
Change in Liabilities: (Decrease)		
Claims and judgments payable		(346,961,000)
Accrued liabilities		(56,972,587)
Net Cash Flows from Operating Activities	$	(172,262,532)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Decrease in fair value of investments	$	(20,280,789)

The notes to the basic financial statements are an integral part of this statement.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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Note 1 - Summary of Significant Accounting Policies

The accompanying basic financial statements of the Workers' Compensation Program of the state of Washington were prepared in conformity with generally accepted accounting principles (GAAP). The Washington State Office of Financial Management (OFM) is the primary authority for the Workers' Compensation Program accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. Following is a summary of the significant accounting policies:

1.A. Reporting Entity

The Department of Labor & Industries, an agency of Washington State and a part of the primary government, administers and enforces laws and regulations in accordance with Titles 43 and 51 of the Revised Code of Washington (RCW) and Title 296 of the Washington Administrative Code (WAC). The provisions of Title 51 RCW require all employers, unless exempted, to secure coverage for job-related injuries and illnesses either by paying insurance premiums to the Workers' Compensation Program or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations.

The Workers' Compensation Fund is classified as an enterprise fund of the state of Washington. The accompanying basic financial statements present only the activity of the Workers' Compensation Program and do not present the financial position, results of operations, or cash flows of the Washington State Department of Labor & Industries or the state of Washington. The Department of Labor & Industries' financial report is included in the basic financial statements of the Comprehensive Annual Financial Report of the state of Washington. A copy of the report may be obtained from the Washington State Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA 98504-3113. A copy can also be obtained from the OFM website at http://ofm.wa.gov/cafr.

1.B. Basic Financial Statements

The Workers' Compensation Fund consists of the following seven enterprise fund accounts**:**

The Accident Account pays compensation directly to injured workers for lost wages during temporary disability and permanent partial disability awards. It also pays costs for vocational retraining and for structured settlements. The Structured Settlement Program was created by House Bill 2123 during the 2011 Legislative session and is a voluntary program in which those who are eligible can negotiate an agreement for the non-medical portion of a claim and receive settlement payment(s). The Accident Account also pays to the Pension Reserve Account the present value of pensions awarded to survivors of fatally injured workers and to workers who are permanently and totally disabled.

Revenues for this account are from employer-paid premiums based on individual employers' reported payroll hours and are reported net of refunds. Employers may elect to have their premiums retrospectively rated with an annual adjustment for up to three years following the plan year based on individual employers' actual losses incurred. This may result in either a rebate of premiums paid or an assessment of additional premiums due. The premium adjustment calculation considers both the Accident and Medical Aid Accounts' experience and premiums together; however, retrospective premium adjustments are financed entirely through the Accident Account.

On behalf of injured workers, the Medical Aid Account pays for the cost of medical, vocational rehabilitation services, and Stay at Work reimbursements. The Stay at Work Program was created by House Bill 2123 during the 2011 Legislative session and is a financial incentive program that encourages employers to bring employees recovering from on-the-job injuries back to light-duty or transitional work. Revenues for this account mostly arise from equal contributions from employers and employees; employers are required to withhold half of their medical aid premium from their employees' wages.

The Pension Reserve Account pays benefits to all permanently disabled pensioners, including disabled employees of self-insured employers, their dependents, and surviving dependents of fatalities. Funding for pension payments is generated by transfers from the Accident and Second Injury Accounts and reimbursement payments from self-insured employers. The funds are invested in securities to cover payments for the expected life of the injured worker or survivor.

The three accounts described above are referred to as the Industrial Insurance Fund or the Workers' Compensation Program Basic Plan. The Accident, Medical Aid, and Pension Reserve Accounts are maintained on an actuarially solvent basis; however, a cash flow basis is used for the surety bond components of the Pension Reserve Account. Self-insured employers have the option to guarantee pension-related benefits with a surety bond or to fund the benefits with cash.

The Supplemental Pension Account provides for supplemental cost-of-living adjustments (COLAs) to injured workers and their dependents receiving disability payments. Per RCW 51.32.073, this account operates on a current payment basis, and no assets are allowed to accumulate for the future servicing of claim payments.

COLA and time-loss payment increases are based on the increase in the state's average wage during the preceding calendar year and are made effective in July of the following year. Revenues for COLA payments arise from assessments to State-Fund-insured and self-insured employers; half of the assessment is deducted from employees' wages.

The Second Injury Account is used to pay pension costs on claims where a permanent total disability is at least partially caused by a prior injury and to fund job modifications for some temporarily disabled workers. It is funded by amounts received from the Accident and Medical Aid Accounts for State-Fund-insured claims and by self-insured assessments for self-insured claims. An allowance for future second injury benefit payments is contained within the Accident and Medical Aid Accounts' claims liabilities for State-Fund-insured claims; therefore, this account does not carry any claims liabilities.

The Self-Insured Employer Overpayment Reimbursement Account reimburses self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. The revenue for this account comes from self-insured employer overpayment assessments.

The Industrial Insurance Rainy Day Fund Account receives transfers of funds from the Accident and Medical Aid Accounts; however, it did not have any activity during Fiscal Year 2012 or balance on June 30, 2012.

The Department of Labor & Industries presents the following basic financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

Statement of Net Assets – This statement presents assets and liabilities for the Workers' Compensation Program in order of liquidity. Net assets are classified into two categories:

- **Invested in capital assets, net of related debt** – Consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds that relate to the acquisition, construction, or improvement of those assets.

- **Unrestricted –** Consists of the portion of net assets that does not meet the definition of the preceding category.

Statement of Revenues, Expenses, and Changes in Net Assets – This statement presents the activity and changes in net assets of the Workers' Compensation Program. Activity is distinguished between operating and nonoperating revenues and expenses.

Operating revenues for the Workers' Compensation Program consist mainly of premiums and assessments collected, net of refunds. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

Statement of Cash Flows – This statement reports cash collections and payments for the Workers' Compensation Program to arrive at the net increase or decrease in cash and cash equivalents during the fiscal year.

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

1.C. Measurement Focus and Basis of Accounting

Measurement focus describes the types of transactions and events reported in an account's operating statement. The Workers' Compensation Program's seven accounts are accounted for using the economic resources measurement focus, much like that of a private-sector business.

With this measurement focus, all assets and liabilities associated with the operations of the accounts are included in the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets with a focus on transactions and events that have increased or decreased the accounts' total economic resources during the period.

The basis of accounting determines the timing of the recognition of transactions and events. All accounts of the Workers' Compensation Program are reported on using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

1.D. Assets, Liabilities, and Net Assets

1.D.1. Cash and Cash Equivalents

Cash and cash equivalents are cash and pooled investments reported on the accompanying Statement of Net Assets and Statement of Cash Flows. Cash includes cash in banks, cash on deposit with the Office of the State Treasurer, and cash on hand. Cash equivalents include short-term, highly-liquid investments that are both readily convertible to cash and mature within three months of the date acquired.

Under RCW 43.08.015, the Office of the State Treasurer has the statutory responsibility to ensure the effective cash management of the state's public funds. RCW 43.84.080 authorizes the Treasurer to invest available cash and includes a list of eligible investments. The Office of the State Treasurer invests Workers' Compensation Program cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of accounts with surplus pooled balances are not reduced for these investments.

1.D.2. Trust Cash and Trust Investments

The U.S. Department of Energy has contracted with the Workers' Compensation Program to pay benefits to Hanford nuclear production complex workers injured on the job. Funds, provided in advance by the U.S. Department of Energy to cover the pension liability determined by the Workers' Compensation Program, are recorded as "Trust Cash" and "Trust Investments."

As of June 30, 2012, Trust Cash amounted to $89,476 and is available to reimburse the Workers' Compensation Program for monthly pension payments. As of June 30, 2012, Trust Investments totaling $3,954,000 were invested in U.S. Treasury Notes and are also available to reimburse the Workers' Compensation Program for future expenses.

1.D.3. Investments

Noncurrent investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services.

1.D.4. Receivables and Payables

Current receivables arose in the ordinary course of business and consist of amounts due for workers' compensation premiums, amounts due for overpayment of benefits to injured workers and providers, investment interest receivable, and other miscellaneous receivables. Receivables are recorded when they can be reasonably estimated and have been earned (i.e., overpayment has occurred, service has been performed, or the time period has passed). Receivables due for workers' compensation premiums for the quarter ended June 30, 2012, are estimated. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

The Workers' Compensation Program uses the allowance method for establishing an allowance for uncollectible receivables. Management regularly reviews receivables and adjusts the allowance based on weighted average percentages calculated from a historical analysis of past collection activity. The allowance percentages are determined based on age category and collection activity for each receivable. Interest accrues on overdue accounts receivable at the rate of 1 percent per month. When an account is deemed uncollectible, it is written off against the allowance; however, such accounts are not forgiven until allowed by law. The Workers' Compensation Program does not require collateral for its accounts receivable except for self-insurance pension receivables.

The Workers' Compensation Program establishes claims liabilities (unpaid loss and loss adjustment expense liabilities) based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not resolved and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the type of benefit involved. Because actual claim costs depend on complex factors, such as inflation, changes in doctrines of legal liabilities, claim adjudication, and judgments, the actual ultimate claim costs may differ from the estimates.

In the Accident Account, the incurred but not-yet-awarded pensions are discounted at a rate of 6.5 percent to the anticipated time of award, and 2.0 percent from the anticipated time of award to the present. All other Accident, Medical Aid and Supplemental Pension Account benefit and claims administration liabilities are discounted at 2.0 percent. The benefit liabilities in the Pension Reserve Account are discounted at 6.5 percent.

Claims payable are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

Discount Rate Change: The Workers' Compensation Program's non-pension discount rate is set two percentage points less than the five-year average of the twenty-year U.S. Treasury yield rounded to the nearest half percent. Since interest rates have decreased and have remained low, the non-pension discount rate dropped from 2.5% to 2.0% during Fiscal Year 2012. As a result of this non-pension discount rate change, claims benefit and claims administration expense liabilities increased.

However, in the reserving process, the actuaries also set the long-term inflation rate assumption equal to the discount rate, and this long-term inflation rate is the basis for their time-loss, pension, and medical inflation assumptions. This decrease in the long-term inflation rate lowered the long-term COLA and payout projections, which has the opposite effect of the change in discount rate and, in turn, reduces the time-loss, medical, and, more significantly, supplemental pension benefit claims payable.

The net effects of reducing both the non-pension discount rate and the long-term inflation assumptions from 2.5% to 2.0% were a decrease of $374 million in claims payable and an increase of the same amount in net assets, as shown in the table below.

Effects of Non-Pension Discount Rate Change on Benefit and Claims Administration Expense Liabilities
June 30, 2012
(dollars in thousands)

	Long-Term Inflation Rate & Non-Pension Discount Rate @ 2.5%	Effect of Reducing Non-Pension Discount Rate to 2.0%	Effect of Reducing Long-Term Inflation Rate to 2.0%	Long-Term Inflation Rate & Non-Pension Discount Rate @ 2.0%	Net Effect of Changing Long Term Inflation Rate and Non-Pension Discount Rate: Dollars	Percent
Accident Account	$ 4,372,385	$ 77,444	$ -	$ 4,449,829	$ 77,444	1.7%
Medical Aid Account	3,786,716	256,764	(252,806)	3,790,674	3,958	0.1%
Supplemental Pension Account	11,312,891	797,580	(1,253,051)	10,857,420	(455,471)	-4.2%
	$ 19,471,992	$ 1,131,788	$(1,505,857)	$ 19,097,923	$ (374,069)	-2.0%

1.D.5. Inventories and Prepaid Expenses

Consumable inventories consisting of expendable materials and supplies held for consumption are valued and reported in the Statement of Net Assets at weighted average cost if the fiscal year-end balance on hand is estimated to be $25,000 or more. The Workers' Compensation Program expenses consumable inventories when used.

Prepaid items are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. There were no prepaid expenses at the end of June 30, 2012.

1.D.6. Capital Assets

In accordance with OFM policy, it is the Workers' Compensation Program's policy to capitalize:

- All land.

- Buildings, building improvements, and leasehold improvements with a cost of $100,000 or greater.

- Infrastructure with a cost of $100,000 or greater.

- Intangible assets, either purchased or internally developed, with a cost of $1,000,000 or greater and that are "identifiable" by meeting either of the following conditions:

    - The asset is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged; or

    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable.

- All capital assets acquired with a Certificate of Participation.

- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, unless otherwise noted.

Capital assets are recorded at cost. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of capital assets are not capitalized.

The value of assets constructed for use in the Workers' Compensation Program includes all direct construction costs and indirect costs such as agency project management costs that are related to the construction. Net interest cost incurred during the period of construction, if material, is capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost and related accumulated depreciation of capital assets that have been disposed of are removed from the accounting records.

Generally, estimated useful lives are as follows:

• Buildings and building components	5-50 years
• Furnishings, equipment, and collections	3-50 years
• Other improvements	3-50 years
• Infrastructure	20-50 years
• Intangible assets with definite useful lives	3-50 years

1.D.7. Compensated Absences

Workers' Compensation Program employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 240 hours at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the Workers' Compensation Program does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the Workers' Compensation Program is liable for 25 percent of the employee's accumulated sick leave. In addition, the Workers' Compensation Program has a sick leave buyout option in which each January, employees who accumulate sick leave in excess of 480 hours may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

The Workers' Compensation Program recognizes the expense and accrues a liability for annual leave and estimated sick leave buyout, including related payroll taxes and applicable benefits, as the leave is earned. It is the Workers' Compensation Program's policy to liquidate unpaid compensated absences outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

1.E. Other Information

1.E.1. Risk Management

The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for certain liabilities and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past ten years. Otherwise, the self-insurance liability program services all claims against the State for injuries and property damage to third parties.

The Workers' Compensation Program participates in the state's self-insurance liability program, in proportion to its anticipated exposure to liability losses, to manage its various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

1.E.2. Interfund/Interagency Activities

The Workers' Compensation Program engages in reciprocal and nonreciprocal interfund/interagency activities that may include an element of indirect cost. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

Note 2 - Deposits and Investments

2.A. Deposits

Custodial credit risk for deposits is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the Workers' Compensation Program would not be able to recover its deposits. See Note 1.D.1 for more information on cash and cash equivalents.

The Workers' Compensation Program minimizes custodial credit risk by restrictions set forth in state law. Statutes require the State Treasurer to deposit funds in financial institutions that are physically located in Washington, unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under Chapter 39.58 RCW, makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

The state of Washington's Office of the State Treasurer manages the deposits for the Workers' Compensation Program. At June 30, 2012, $39.4 million of the Workers' Compensation Programs' deposits with financial institutions were either insured or collateralized, with the remaining $4.0 million uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

2.B. Investments

2.B.1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the Workers' Compensation Program's investments is vested in the voting members of the Washington State Investment Board (WSIB). The Legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes investment decisions and seeks to meet its investment objectives.

In accordance with RCW 43.33A.110, the Workers' Compensation Program portfolios are to be managed to limit fluctuations in workers' compensation premiums, and subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives is to:

- Maintain the solvency of the accounts.
- Maintain premium rate stability.

- Ensure that sufficient assets are available to fund the expected liability payments.

- Subject to the objectives above, achieve a maximum return at a prudent level of risk.

Eligible Investments - Eligible investments are securities and deposits that are in accordance with the WSIB's investment policy and 43.33A RCW. Eligible investments include:

- U.S. equities

- International equities

- Treasury Inflation-Protected Securities (TIPS)

- U.S. Treasuries and government agencies

- Credit bonds

- Mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices

- Asset-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices

- Commercial mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices

- Investment grade non-U.S. dollar bonds

Investment Restrictions - To meet stated objectives, investments of the Workers' Compensation Program are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.

- Asset allocations are to be reviewed every three to four years, or sooner if there are significant changes in funding levels or the liability durations.

- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

- Sector allocation for U.S. equities should be within a range of 55 percent to 65 percent. Allocation for international equities should be within a range of 35 percent to 45 percent.

- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the MSCI US IMI passive mandate. The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country World Ex U.S. Investable Market Index. Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long-term position.

- TIPS will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS Index.

- The structure of the fixed income portfolio varies, depending upon the required duration target. No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.

- Sector allocation of fixed income investments are to be managed within prescribed ranges. These targets are long-term in nature. Deviations may occur in the short term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced to the target allocations as soon as it is practical. Target allocations for the Fixed Income Sectors:

U.S. treasuries and government agencies	5 percent to 25 percent
Credit bonds	20 percent to 70 percent
Asset-backed securities	0 percent to 10 percent
Commercial mortgage-backed securities	0 percent to 10 percent
Mortgage-backed securities	0 percent to 25 percent

- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

- Total holdings of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) should not exceed 5 percent of total fixed income holdings.

2.B.2. Securities Lending

State law and WSIB policy permit the Workers' Compensation Program to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JPMorgan to act as agent for the Workers' Compensation Program in securities lending transactions. As JPMorgan is the custodian bank for the Workers' Compensation Program, it is counterparty to securities lending transactions.

The Workers' Compensation Program reports securities lent (the underlying securities) as assets in the Statement of Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Workers' Compensation Program has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the Statement of Net Assets. Securities lending transactions collateralized by securities that the Workers' Compensation Program does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

In anticipation of a custodian bank conversion on July 1, 2012, the Workers' Compensation Program recalled all securities on loan. There were no assets on loan at June 30, 2012, and no collateral held related to securities lending transactions.

During Fiscal Year 2012, fixed income securities were loaned and collateralized by the WSIB's agent with cash, U.S. government securities (exclusive of mortgage-backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the securities loaned. Securities lending transactions could be terminated on demand by either the Workers' Compensation Program or the borrower. The weighted average maturity of loans was 1.5 days.

Cash collateral was invested by the Workers' Compensation Program in the WSIB's short-term investment pool. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JPMorgan indemnified the Workers' Compensation Program by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JPMorgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2012, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Program incurred no losses during Fiscal Year 2012 resulting from a default by either the borrowers or the securities lending agents.

2.B.3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Increases in prevailing interest rates generally translate into decreases in fair values of those investments.

While the WSIB does not have a formal policy specifically for interest rate risk, the Workers' Compensation Program's fixed income portfolio is managed to set duration targets. The duration targets will be reviewed every three years, or sooner if there are significant changes in the funding levels or the liability durations. As of June 30, 2012, the Workers' Compensation Program's portfolio durations were within the prescribed duration targets.

The schedule below provides information about the interest rate risks associated with the Workers' Compensation Program's investments as of June 30, 2012. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage-backed, commercial mortgage-backed and asset-backed securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal. All other securities on this schedule are reported using the stated maturity date.

Schedule of Maturities and Credit Ratings
(in thousands)

		Maturity					Effective
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Credit Rating**	**Duration (years)**
Residential mortgage-backed securities	$ 1,743,809	$ 25,143	$ 1,004,023	$ 667,980	$ 46,663	Aaa	4.89
Commercial mortgage-backed securities	429,228	30,322	377,786	21,120	-	Multiple	3.29
Corporate bonds - domestic	3,191,256	203,994	534,685	1,021,460	1,431,118	Multiple	8.71
Corporate bonds - foreign (USD)	2,463,565	267,206	439,806	814,805	941,749	Multiple	7.65
Foreign Government and Agencies (USD)	941,850	44,791	396,713	303,048	197,298	Multiple	6.34
Supranational (USD)	184,781	45,792	138,989	-	-	Aaa	2.85
Government securities - domestic:							
U.S. Government treasuries	777,685	145,357	599,355	32,972	-	Aaa	2.71
Treasury inflation-protected securities	1,889,532	-	597,279	618,101	674,151	Aaa	4.71
	11,621,706	$ 762,605	$ 4,088,636	$ 3,479,486	$ 3,290,979		
Commingled index funds - domestic	951,396						
Commingled index funds - foreign	628,820						
Money market funds	119,900						
Total investments not categorized	1,700,116						
Total	$ 13,321,822						

Investments with multiple credit ratings are presented using the Moody's rating scale as follows at June 30, 2012:

Multiple Credit Rating Disclosure
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Commercial Mortgage-Backed Securities	Corporate Bonds - Domestic	Corporate Bonds-Foreign	Foreign Governement and Agencies	Total
Aaa	$ 332,934	$ 6,101	$ -	$ 166,303	$ 505,338
Aa2	-	-	-	53,237	53,237
Aa3	96,294	226,940	224,345	139,208	686,787
A1	-	178,665	225,957	248,947	653,569
A2	-	762,672	35,017	-	797,689
A3	-	481,087	313,892	-	794,979
Baa1	-	558,674	425,599	27,297	1,011,570
Baa2	-	770,301	636,284	146,050	1,552,635
Baa3	-	123,108	443,673	83,253	650,034
Ba1 or lower	-	83,708	158,798	77,555	320,061
Total Fair Value	$ 429,228	$ 3,191,256	$ 2,463,565	$ 941,850	$ 7,025,899

2.B.4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Program does not have a policy specifically for credit risk. The rated debt investments of the Workers' Compensation Program as of June 30, 2012, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Program's policy states that no corporate fixed income issue cost shall exceed three percent of the fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2012.

Custodial Credit Risk (Investments) - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Workers' Compensation Program would not be able to recover the value of investments that are in the possession of an outside party. The Workers' Compensation Program does not have a policy specifically for custodial credit risk. The Workers' Compensation Program mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the WSIB for the benefit of the Workers' Compensation Program, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

2.B.5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The only security held by the Workers'

Compensation Program with foreign currency risk at June 30, 2012, consisted of $629 million invested in an international commingled equity index fund.

2.B.6. Derivatives

The Workers' Compensation Program is authorized to utilize various derivative financial instruments. These include mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns.

Derivative transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Program mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the Workers' Compensation Program's authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2012.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

At June 30, 2012, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $1.74 billion.

2.B.7. Reverse Repurchase Agreements

State law permits the Workers' Compensation Program to enter into reverse repurchase agreements, i.e., a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the Workers' Compensation Program would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2012, and there were no liabilities outstanding as of June 30, 2012.

Note 3 - Receivables

Receivables at June 30, 2012, consisted of the following:

Receivables June 30, 2012		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	150,536,371
Estimated premiums receivable (1)		507,849,000
Estimated self insurance premiums receivable (2)		52,359,863
Total premiums receivable		710,745,234
Other receivables		
Receivable from overpayments		8,197,358
Investment interest receivable		109,782,808
Safety fines & penalties receivable		9,368,998
Miscellaneous receivables		5,232,267
Total Current Receivables, gross		843,326,665
Less: Allowance for uncollectible receivables		156,691,348
Total Current Receivables, net of allowance	$	686,635,317

(1) Estimated premiums receivable represents the quarter ended June 30, 2012, premium amounts estimated by Labor & Industries actuaries to be collected for the Accident, Medical Aid, and Supplemental Pension Accounts.

(2) Estimated self-insurance premiums receivable represents estimated assessment receivables accrued for the quarter ended June 30, 2012, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and current receivable balances.

Note 4 - Interfund/Interagency Balances

The following reflects the total balances in the Workers' Compensation Program at June 30, 2012, and the amounts of receivables from and payables to other state accounts and agencies:

Receivables From Other State Accounts and Agencies June 30, 2012		
General Fund	$	5,073
Agency Accounts		19,013
Other State Agencies		21,241
Total Receivables From Other State Accounts and Agencies	$	45,327

Payables To Other State Accounts and Agencies June 30, 2012		
General Fund	$	533
Agency Accounts		62,495
Other State Agencies		8,532,463
Total Payables To Other State Accounts and Agencies	$	8,595,491

All balances are expected to be paid within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2012, and paid after the fiscal year ended. Receivables or payables within the Workers' Compensation Program are not included in the above totals.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Capital Assets Activity
June 30, 2012

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Construction in progress	13,040,071	4,158,034	(14,221,995)	2,976,110
Total capital assets not being depreciated	16,279,819	4,158,034	(14,221,995)	6,215,858
Capital assets being depreciated:				
Buildings and building components	65,133,602	-	-	65,133,602
Accumulated depreciation	(24,934,455)	(1,353,503)	-	(26,287,958)
Net buildings and building components	40,199,147	(1,353,503)	-	38,845,644
Furnishings, equipment, and collections	68,808,709	1,481,209	(1,534,784)	68,755,134
Accumulated depreciation	(61,198,076)	(3,761,723)	1,435,238	(63,524,561)
Net furnishings, equipment, and collections	7,610,633	(2,280,514)	(99,546)	5,230,573
Other improvements	1,661,532	-	(372,270)	1,289,262
Accumulated depreciation	(908,527)	(83,372)	325,540	(666,359)
Net other improvements	753,005	(83,372)	(46,730)	622,903
Total capital assets being depreciated, net	48,562,785	(3,717,389)	(146,276)	44,699,120
Intangible Assets - Definite Useful Lives	4,338,842	14,221,995	-	18,560,837
Accumulated amortization	-	(1,892,512)	-	(1,892,512)
Total capital assets being amortized, net	4,338,842	12,329,483	-	16,668,325
Total capital assets, net of depreciation and amortization	$ 69,181,446	$ 12,770,128	$ (14,368,271)	$ 67,583,303

For Fiscal Year 2012, the total depreciation expense was $6,633,587.

Note 6 - Noncurrent Liabilities

6.A. Bonds Payable

The Workers' Compensation Program is responsible for semi-annual payments on a certain portion of three series of general obligation bonds issued by the state of Washington between 1993 and 2007. General Obligation Bond Series R-2007A was paid off in Fiscal Year 2011. The bond proceeds provided funding for the acquisition and construction of the building and grounds known as the Department of Labor & Industries' headquarters in Tumwater, Washington, and refunding of general obligation bonds previously outstanding. The federal arbitrage regulations do not apply to the Workers' Compensation Program.

The terms of the bond payment obligations are as follows:

- **The General Obligation Bonds of Series R-93B**
  The Workers' Compensation Program is required to make varying annual principal and interest payments, with the final payment due in Fiscal Year 2016. The principal amount of these bonds outstanding was $9,475,000 at June 30, 2012. Bonds outstanding at June 30, 2012, have coupon interest rates of 5.7 percent. The original amount of this bond issue was $19,960,000 in Fiscal Year 1993.

- **The General Obligation Bonds of Series R-2007C**
  The Workers' Compensation Program is required to make annual interest payments. The next principal payment will be in Fiscal Year 2013, with the final payment due in Fiscal Year 2016. The principal amount of these bonds outstanding was $5,400,000 at June 30, 2012. Bonds outstanding at June 30, 2012, have coupon interest rates of 5 percent. The original amount of this bond issue was $6,635,000 in Fiscal Year 2007.

In Fiscal Year 2012, the Workers' Compensation Program paid $3,205,000 in principal and $897,376 in interest. Since a portion of the interest paid was for the prior year, total Fiscal Year 2012 interest expense was $839,288.

There are no covenants related to the Workers' Compensation Program's obligation for these bonds. The annual debt service requirements to maturity for general obligation bonds for the fiscal years ending June 30 are as follows:

General Obligation Bonds
by Fiscal Year

	Principal	Interest	Total
2013	$ 3,400,000	$ 717,480	$ 4,117,480
2014	3,605,000	526,710	4,131,710
2015	3,820,000	324,530	4,144,530
2016	4,050,000	110,262	4,160,262
Total Debt Service Requirements	$ 14,875,000	$ 1,678,982	$ 16,553,982
Current portion	$ 3,400,000	$ 717,480	$ 4,117,480
Noncurrent portion	$ 11,475,000	$ 961,502	$ 12,436,502

Debt Refunding

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refund issued are used to purchase U.S. Government securities. These securities are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability has been removed from the Statement of Net Assets. There were no debt refundings in Fiscal Year 2012.

6.B. Claims Payable

The following schedule presents the changes in claims liabilities (unpaid loss and loss adjustment expense liabilities) for the past two fiscal years for the Workers' Compensation Program:

Changes in Claims Liabilities
June 30, 2012 and 2011

Claims Payable	**June 30, 2012**	**June 30, 2011**
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 22,943,311,000	$ 24,025,832,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	1,823,525,000	1,950,485,000
Decrease in provision for insured events of prior fiscal years	(92,184,000)	(933,553,000)
Total incurred claims and claim adjustment expenses	1,731,341,000	1,016,932,000
Payments:		
Claims and claim adjustment expenses attributable to:		
Events of the current fiscal year	283,763,000	288,812,000
Insured events of prior fiscal years	1,794,539,000	1,810,641,000
Total payments	2,078,302,000	2,099,453,000
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 22,596,350,000	$ 22,943,311,000
Current portion	$ 1,776,096,000	$ 1,741,968,000
Noncurrent portion	$ 20,820,254,000	$ 21,201,343,000

At June 30, 2012, $35.3 billion of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $22.6 billion.

The claims and claims adjustment liabilities of $22.6 billion, as of June 30, 2012, include $10.9 billion for supplemental pension COLAs that are funded on a current basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The remaining claim liabilities of $11.7 billion are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

6.C. Changes in Noncurrent Liabilities

Noncurrent liability activity for the fiscal year ended June 30, 2012, was as follows:

Current and Noncurrent Liability Activity Fiscal Year Ending June 30, 2012					
Noncurrent Liabilities	**Beginning Balance July 1, 2011**	**Additions**	**Reductions**	**Ending Balance June 30, 2012**	**Due Within One Year**
Claims Payable, current & noncurrent	$ 22,943,311,000	$ 1,731,341,000	$ (2,078,302,000)	$ 22,596,350,000	$ 1,776,096,000
Bonds Payable:					
General Obligation Bonds:					
Series R-93B	11,525,000	-	(2,050,000)	9,475,000	2,170,000
Series R-2007A	-	-		-	-
Series R-2007C	6,555,000	-	(1,155,000)	5,400,000	1,230,000
Total Bonds Payable	18,080,000	-	(3,205,000)	14,875,000	3,400,000
Other Noncurrent Liabilities:					
Compensated absences *	11,225,361	10,768,906	(9,904,777)	12,089,490	1,438,091
Other Postemployment Benefits	23,331,132	7,796,000	(2,121,000)	29,006,132	-
Total Other Noncurrent Liabilities	34,556,493	18,564,906	(12,025,777)	41,095,622	1,438,091
Total Noncurrent Liabilities (including current portion)	$ 22,995,947,493	$ 1,749,905,906	$ (2,093,532,777)	$ 22,652,320,622	$ 1,780,934,091

* Compensated absences due within one year are included in accrued liabilities on the Statement of Net Assets.

6.D. Operating Leases

The Workers' Compensation Program leases land, office facilities, office and computer equipment, and other assets under a variety of operating lease agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature to continue the obligation. If the possibility of not receiving funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Certain operating leases are renewable for specified periods. Management expects that the leases will be renewed or replaced by other leases in most cases.

The following schedule presents future minimum payments for operating leases as of June 30, 2012:

Future Minimum Payments June 30, 2012		
Operating Leases (by Fiscal Year)		
2013	$	7,083,570
2014		6,965,212
2015		6,883,807
2016		6,739,871
2017		5,696,417
2018-2022		6,042,358
Total Future Minimum Lease Payments	$	39,411,235

The total operating lease rental expense for Fiscal Year 2012 was $10,075,203.

Note 7 - Deficit

At June 30, 2012, the Workers' Compensation Program had a deficit of $8.7 billion. This is mainly a result of a $10.7 billion deficit in the Supplemental Pension Account at June 30, 2012, offset by $2.0 billion net assets in the total Basic Plan. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2012, non-current claims payable in the Supplemental Pension Account was $10.4 billion.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during Fiscal Year 2012.

Supplemental Pension Account Deficit Net Assets	
Balance, July 1, 2011	$ (11,503,913,197)
Fiscal Year 2012 Activity	852,163,909
Balance, June 30, 2012	$ (10,651,749,288)

Note 8 - Retirement Plans

Workers' Compensation Program employees participate in the Washington State Public Employees' Retirement System (PERS) administered by the Department of Retirement Systems (DRS).

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by February 28, 2002, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3.

PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the state Legislature. The annual benefit is basically two percent of the average final compensation (AFC) per year of service for Plan 1 and Plan 2, and one percent of the AFC per year of service for the defined benefit portion of Plan 3. An actuarial valuation of the retirement plan for the Workers' Compensation Program as a stand-alone entity is not available. A complete description of benefits and pension note disclosures for PERS is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Accounting Division of the Office of Financial Management at P.O. Box 43113, Olympia, Washington 98507-3113, or online at http://www.ofm.wa.gov/cafr.

The Legislature provided for minimum contribution rates for PERS. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3.

Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for PERS Plan 2 state agency employees at June 30, 2012, 2011, and 2010 were 4.64 percent, 3.90 percent and 3.90 percent, respectively.

All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Director of the DRS sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The employer contribution rates for the Workers' Compensation Program at June 30, 2012, 2011, and 2010, for each of PERS Plans 1, 2, and 3 were 7.08, 5.31, and 5.31 percent of the employee's annual covered salary, respectively. The Workers' Compensation Program contributed 100 percent of the required amounts, which were $9,858,778, $7,378,462, and $7,464,580, to PERS during Fiscal Years 2012, 2011, and 2010, respectively.

Note 9 - Other Postemployment Benefits

The Workers' Compensation Program participates fully in the Other Postemployment Benefit (OPEB) plan administered by the Washington State Health Care Authority (HCA) under the auspices of the Public Employees Benefits Board (PEBB), in addition to those pension benefits described in Note 8.

The following table shows components of the Workers' Compensation Program's OPEB costs for Fiscal Year 2012 and Fiscal Year 2011, the amount actually contributed to the plan, and changes in the Workers' Compensation Program's net OPEB obligation (NOO):

OPEB Obligation (NOO)

	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011
NOO, beginning of year	$ 23,331,132	$ 17,469,300
Annual OPEB costs	7,796,000	7,932,467
Contribution made	(2,121,000)	(2,070,635)
NOO, end of year	$ 29,006,132	$ 23,331,132

The above information was provided by the Washington State Office of Financial Management. The Workers' Compensation Program's OPEB plan represents 2.27 percent of the state of Washington's OPEB plan as of both June 30, 2012 and 2011.

The information below fully discloses the state of Washington's information with regard to funding policy, annual OPEB costs and contributions made, the funded status and funding progress of the employer individual plan, as well as actuarial methods and assumptions used. As the Workers' Compensation Program participates in this multiple-employer plan, no stand-alone information for the Workers' Compensation Program is available. The state of Washington's OPEB plan does not issue a financial report.

Plan Description and Funding Policy

The state of Washington, through the HCA, administers an agent multiple-employer other postemployment benefit plan per RCW 41.05.065. The HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability insurance.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 54 of the state's K-12 schools and educational service districts (ESDs) and 207 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 246 K-12 schools and ESDs.

As of June 30, 2012, membership in the PEBB plan consisted of the following:

PEBB Plan Membership
June 30, 2012

	Active Employees	Retirees[1]	Total
State	106,255	27,807	134,062
K-12 schools and ESDs[2]	1,800	29,245	31,045
Political subdivisions	11,375	1,261	12,636
Total	119,430	58,313	177,743

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

[2]In Fiscal Year 2012, there were 98,349 full-time equivalent active employees in the 246 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2012, the estimated monthly cost for PEBB benefits for active employees (averaged across all plans and tiers) was as follows:

PEBB Benefits
June 30, 2012

Required Premium[3]		
Medical	$	880
Dental		83
Life		5
Long-term disability		2
Total	$	970
Employer contribution	$	852
Employee contribution		118
Total	$	970

[3] Per 2012 Index Rate Model 3.60.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: Public Employees' Retirement System, Public Safety Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System, Washington State Patrol Retirement System, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2011, the average weighted implicit subsidy was valued at $301 per member per month, and in Calendar Year 2012, the average weighted implicit subsidy is projected to be $326 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2011, the explicit subsidy was $183 per member per month, and in Calendar Year 2012, the explicit subsidy is $150 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in Calendar Year 2011. The retiree subsidy of life insurance was eliminated, effective January 2012.

Administrative costs, as well as implicit and explicit subsidies, are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2012, the cost of the subsidies was approximately 6.5 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer-provided subsidies associated with the PEBB plan, refer to:
http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the state's annual OPEB cost for Fiscal Year 2012, the amount contributed to the plan, and changes in the state's net OPEB obligation (NOO):

OPEB Cost Components
(in thousands)

		June 30, 2012
Annual required contribution	$	320,991
Interest on NOO		46,250
Amortization of NOO		(36,954)
Annual OPEB cost		330,287
Contributions made		(78,673)
Increase in NOO		251,614
NOO,beginning of year		1,027,767
NOO, end of year	$	1,279,381

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Years 2010, 2011 and 2012 were as follows:

OPEB History
(dollars in thousands)

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
6/30/2012	$	330,286	23.8%	$	1,279,381
6/30/2011	$	328,568	23.9%	$	1,027,767
6/30/2010	$	354,420	19.8%	$	777,872

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011, the latest date for which information is available, was as follows:

OPEB Funded Status (dollars in thousands)		
		January 1, 2011
Actuarial accrued liability (AAL)	$	3,491,970
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	3,491,970
Funded ratio (actuarial value of plan assets/AAL)		0.0%
Covered payroll (active plan members)	$	5,937,061
UAAL as a percentage of covered payroll		58.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Significant Methods and Assumptions	
Actuarial valuation date	January 1, 2011
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.0%
Healthcare inflation rate	7.0% initial rate, 5% ultimate rate in 2083
Inflation rate	3.5%

In addition to the assumptions above, several factors also significantly contributed to the actuarial results. The PEBB voted to permanently eliminate the subsidy paid for life insurance premiums beginning in January 2012. Also in January 2012, explicit subsidies for retirees enrolled in Medicare Parts A and B were reduced from $183 per month to $150 per month. These changes caused the net liabilities to decrease.

Note 10 - Commitments and Contingencies

10.A. Contingencies

The Workers' Compensation Program is party to numerous routine legal proceedings that normally occur in operations. At any given point, there may be numerous lawsuits that could impact expenses. There is a recurring volume of tort and other claims for compensation and damages against the Workers' Compensation Program. The collective impact of these claims, however, is not likely to have a material impact on the Workers' Compensation Program's financial position, revenues or expenses.

10.B. Federal Assistance

The Workers' Compensation Program has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from a review or audit may become a liability of the Workers' Compensation Program. The Workers' Compensation Program does estimate and recognize a claims liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the Workers' Compensation Program's overall financial condition. The total federal assistance for Fiscal Year 2012 was $8.4 million.

10.C. Commitments

Effective July 1, 1992, the Washington State Legislature required the Workers' Compensation Program, under RCW 48.22.070, to participate in an assigned risk pool providing workers' compensation coverage under the United States Longshoreman and Harbor Workers' Act. The Workers' Compensation Program is obligated to participate 50 percent in the underwriting losses or surpluses of the assigned risk pool. This participation is scheduled to continue indefinitely due to amending legislation passed in 1997. However, the Workers' Compensation Program has not made any payments to this risk pool since enactment of this indefinite commitment.

Note 11 - Subsequent Events

11.A. Proposed Rate Announcement

Each year, the Director of the Department of Labor & Industries adopts new workers' compensation insurance premium rates for the next calendar year. On September 17, 2012, the Director announced a proposed "no increase" in the average premium rate for 2013. The final rates will be adopted in early December 2012 and go into effect on January 1, 2013.

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

State of Washington Workers' Compensation Program - Basic Plan
Schedule of Claims Development Information
Fiscal Years 2003 through 2012
(in millions)

The table below illustrates how the Workers' Compensation Program Basic Plan earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by reinsurers) and other expenses assumed by the Program as of the end of each of the last ten fiscal years. The Workers' Compensation Program has not purchased reinsurance since September 30, 2002, and has never had a qualifying event that generated a recovery.

The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the Basic Plan's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called fiscal accident year).
3. This section shows the cumulative amounts paid as of the end of successive years for each fiscal accident year.
4. This section shows how each fiscal accident year's incurred claims increased or decreased as of the end of successive years. Annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal accident years.

The columns of the table show data for successive fiscal years.

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1.	Net earned required contribution and investment revenues	$ 2,111	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,697	$ 1,692	$ 2,797	$ 2,525	$ 2,581
2.	Estimated incurred claims and expenses, end of fiscal accident year	2,284	2,505	2,308	2,141	2,196	2,256	2,363	2,312	2,254	2,086
3.	Paid (cumulative) as of:										
	End of fiscal accident year	233	244	260	278	295	310	322	298	289	284
	One year later	501	528	556	589	625	679	667	604	584	
	Two years later	650	681	715	754	817	890	863	773		
	Three years later	751	784	821	873	953	1,042	1,000			
	Four years later	824	860	906	964	1,059	1,162				
	Five years later	882	925	977	1,038	1,144					
	Six years later	934	982	1,039	1,103						
	Seven years later	982	1,031	1,094							
	Eight years later	1,027	1,076								
	Nine years later	1,066									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	2,284	2,505	2,308	2,141	2,196	2,256	2,363	2,312	2,254	2,086
	One year later	2,277	2,203	1,989	2,053	2,234	2,559	2,535	2,271	2,139	
	Two years later	2,045	1,971	1,939	2,055	2,390	2,647	2,538	2,261		
	Three years later	1,853	1,864	1,954	2,151	2,441	2,724	2,485			
	Four years later	1,767	1,886	2,025	2,196	2,526	2,662				
	Five years later	1,788	1,941	2,067	2,244	2,445					
	Six years later	1,829	1,966	2,111	2,198						
	Seven years later	1,868	2,016	2,056							
	Eight years later	1,907	1,965								
	Nine years later	1,873									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(411)	(540)	(252)	57	249	406	122	(51)	(115)	

Source: Washington State Department of Labor & Industries Actuarial Services

State of Washington Workers' Compensation Program - Supplemental Pension Plan
Schedule of Claims Development Information
Fiscal Years 2003 through 2012
(in millions)

The table below illustrates how the Workers' Compensation Program Supplemental Pension Plan cost-of-living adjustments earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by reinsurers) as of the end of the last ten fiscal years. The Workers' Compensation Program has not purchased reinsurance since September 30, 2002, and has never had a qualifying event that generated a recovery. The unallocated and other expenses of this plan are paid by the Workers' Compensation Program Basic Plan. This claims development information is reported separate from the Basic Plan for the following reasons:

(1) This plan covers self-insured employees, while the Basic Plan does not.
(2) This plan is not experience rated, while the Basic Plan is.
(3) Statutes restrict the funding of this plan to expected payments of the current year.

The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the Supplemental Pension Plan's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called fiscal accident year).
3. This section shows the cumulative amounts paid as of the end of successive years for each fiscal accident year.
4. This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. Annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive fiscal years.

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1.	Net earned required contribution and investment revenues	$ 293	$ 288	$ 326	$ 305	$ 283	$ 334	$ 349	$ 372	$ 440	$ 444
2.	Estimated incurred claims and expenses, end of fiscal accident year	1,029	1,228	724	804	968	1,093	966	1,082	843	519
3.	Paid (cumulative) as of:										
	End of fiscal accident year	-	-	-	-	-	-	-	-	-	-
	One year later	5	2	1	3	6	8	6	3	1	
	Two years later	4	3	4	7	12	14	10	4		
	Three years later	6	6	8	14	21	21	14			
	Four years later	8	11	15	22	30	28				
	Five years later	13	16	22	30	37					
	Six years later	19	24	30	38						
	Seven years later	26	31	38							
	Eight years later	34	38								
	Nine years later	42									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	1,029	1,228	724	804	968	1,093	966	1,082	843	519
	One year later	1,045	722	721	927	1,176	1,121	1,174	843	577	
	Two years later	676	720	848	1,065	1,125	1,316	980	601		
	Three years later	667	811	971	998	1,272	1,152	718			
	Four years later	759	940	897	1,119	1,116	847				
	Five years later	871	858	990	958	831					
	Six years later	780	919	862	736						
	Seven years later	854	822	652							
	Eight years later	758	623								
	Nine years later	590									
5.	Increase (decrease) in estimated incurred claims and expenses from end of policy year	(439)	(605)	(72)	(68)	(137)	(246)	(248)	(481)	(266)	

Source: Washington State Department of Labor & Industries Actuarial Services

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2012 and 2011
(in thousands)

The schedule below presents the changes in claims liabilities for the past two fiscal years for the Workers' Compensation Basic and Supplemental Pension Plans:

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 11,288,310	$ 11,223,311	$ 11,655,001	$ 12,802,521	$ 22,943,311	$ 24,025,832
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	1,524,878	1,549,771	298,647	400,714	1,823,525	1,950,485
Increase (decrease) in provision for insured events of prior fiscal years	614,321	208,093	(706,505)	(1,141,646)	(92,184)	(933,553)
Total incurred claims and claim adjustment expenses	2,139,199	1,757,864	(407,858)	(740,932)	1,731,341	1,016,932
Payments:						
Claims and claim adjustment expenses attributable to:						
Events of the current fiscal year	283,763	288,812	-	-	283,763	288,812
Insured events of prior fiscal years	1,404,816	1,404,053	389,723	406,588	1,794,539	1,810,641
Total payments	1,688,579	1,692,865	389,723	406,588	2,078,302	2,099,453
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 11,738,930	$ 11,288,310	$ 10,857,420	$ 11,655,001	$ 22,596,350	$ 22,943,311
Current portion	$ 1,330,942		$ 445,154		$ 1,776,096	
Noncurrent portion	$ 10,407,988		$ 10,412,266		$ 20,820,254	

Source: Washington State Department of Labor & Industries Actuarial Services

State of Washington Schedule of Funding Progress for Other Postemployment Benefits

This schedule presents the results of the OPEB valuation for Fiscal Years 2011, 2009, and 2008:

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2011, 2009, and 2008
(dollars in millions)

	2011	2009	2008
Actuarial valuation date	1/1/2011	1/1/2009	1/1/2008
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	3,492	3,787	4,014
Unfunded actuarial accrued liability (UAAL)	3,492	3,787	4,014
Funded ratio	0%	0%	0%
Covered payroll	5,937	5,678	5,170
UAAL as a percentage of covered payroll	59%	67%	78%

* Based on projected unit credit actuarial cost method.

Source: Washington State Office of the State Actuary

Source: Office of Financial Management
State of Washington

Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combining Schedule of Net Assets
June 30, 2012

	Accident Account	Medical Aid Account	Pension Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS								
Current Assets								
Cash and cash equivalents	$ 3,534,606	$ 2,127,995	$ 1,308,249	$ 6,970,850	$ 901,406	$ 30,475,934	$ 1,008,691	$ 39,356,881
Trust cash	-	-	89,476	89,476	-	-	-	89,476
Trust investments	-	-	3,954,000	3,954,000	-	-	-	3,954,000
Receivables, net of allowance	331,589,590	195,436,250	42,768,582	569,794,422	107,041,749	9,799,146	-	686,635,317
Receivables from workers' compensation accounts	1,197,524	681,956	54,328,329	56,207,809	336,678	11,176	-	56,555,663 *
Receivables from other state accounts and agencies	33,448	9,709	-	43,157	2,170	-	-	45,327
Receivables from other governments	910,187	234,233	-	1,144,420	-	-	-	1,144,420
Inventories	109,831	109,831	-	219,662	-	-	-	219,662
Total Current Assets	337,375,186	198,599,974	102,448,636	638,423,796	108,282,003	40,286,256	1,008,691	788,000,746
Noncurrent Assets								
Investments, noncurrent	4,842,922,914	4,576,068,592	3,804,710,829	13,223,702,335	98,119,582	-	-	13,321,821,917
Capital assets, net of accumulated depreciation	33,874,791	33,708,512	-	67,583,303	-	-	-	67,583,303
Total Noncurrent Assets	4,876,797,705	4,609,777,104	3,804,710,829	13,291,285,638	98,119,582	-	-	13,389,405,220
Total Assets	$ 5,214,172,891	$ 4,808,377,078	$ 3,907,159,465	$ 13,929,709,434	$ 206,401,585	$ 40,286,256	$ 1,008,691	$ 14,177,405,966
LIABILITIES AND NET ASSETS (DEFICIT)								
LIABILITIES								
Current Liabilities								
Accounts payable	$ 2,282,262	$ 2,676,827	$ 31,822	$ 4,990,911	$ 8,519	$ -	$ -	$ 4,999,430
Deposits payable	4,802,382	11,928	1,857,582	6,671,892	152,430	-	-	6,824,322
Accrued liabilities	127,072,727	11,131,770	1,033,824	139,238,321	138,878	1,266	-	139,378,465
Bonds payable, current	1,700,000	1,700,000	-	3,400,000	-	-	-	3,400,000
Payables to workers' compensation accounts	43,457,998	152,997	953,802	44,564,797	380,771	11,610,095	-	56,555,663 *
Payables to other state accounts and agencies	5,015,555	3,579,936	-	8,595,491	-	-	-	8,595,491
Unearned revenues	266,399	106,675	7,265,267	7,638,341	50,275	-	-	7,688,616
Claims payable, current	499,759,000	468,923,000	362,260,000	1,330,942,000	445,154,000	-	-	1,776,096,000
Total Current Liabilities	684,356,323	488,283,133	373,402,297	1,546,041,753	445,884,873	11,611,361	-	2,003,537,987
Noncurrent Liabilities								
Claims payable, net of current portion	3,950,070,000	3,321,751,000	3,136,167,000	10,407,988,000	10,412,266,000	-	-	20,820,254,000
Bonds payable, net of current portion	5,737,500	5,737,500	-	11,475,000	-	-	-	11,475,000
Other long-term liabilities	6,228,140	5,861,350	-	12,089,490	-	-	-	12,089,490
Other postemployment benefits	14,869,357	14,136,775	-	29,006,132	-	-	-	29,006,132
Total Noncurrent Liabilities	3,976,904,997	3,347,486,625	3,136,167,000	10,460,558,622	10,412,266,000	-	-	20,872,824,622
Total Liabilities	4,661,261,320	3,835,769,758	3,509,569,297	12,006,600,375	10,858,150,873	11,611,361	-	22,876,362,609
NET ASSETS (DEFICIT)								
Invested in capital assets, net of related debt	26,437,291	26,271,012	-	52,708,303	-	-	-	52,708,303
Unrestricted	526,474,280	946,336,308	397,590,168	1,870,400,756	(10,651,749,288)	28,674,895	1,008,691	(8,751,664,946)
Total Net Assets (Deficit)	$ 552,911,571	$ 972,607,320	$ 397,590,168	$ 1,923,109,059	$ (10,651,749,288)	$ 28,674,895	$ 1,008,691	$ (8,698,956,643)

*Receivables from and payables to the worker's compensation accounts are not included in the Statement of Net Assets.

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
OPERATING REVENUES								
Premiums and assessments, net of refunds	$ 902,146,523	$ 609,161,150	$ 21,516,497	$ 1,532,824,170	$ 443,317,992	$ 38,698,595	$ 114	$ 2,014,840,871
Miscellaneous revenues	39,111,304	2,723,935	73,649	41,908,888	6,055,308	231	-	47,964,427
Total Operating Revenues	941,257,827	611,885,085	21,590,146	1,574,733,058	449,373,300	38,698,826	114	2,062,805,298
OPERATING EXPENSES								
Salaries and wages	69,917,599	66,488,710	-	136,406,309	-	-	-	136,406,309
Employee benefits	28,033,106	26,345,929	-	54,379,035	-	-	-	54,379,035
Personal services	3,160,631	4,852,021	-	8,012,652	-	-	-	8,012,652
Goods and services	35,922,961	33,271,077	-	69,194,038	-	-	-	69,194,038
Travel	2,442,328	1,336,481	-	3,778,809	-	-	-	3,778,809
Claims	740,800,124	788,635,537	470,065,156	1,999,500,817	(407,238,990)	1,930,137	-	1,594,191,964
Depreciation	3,483,766	3,149,821	-	6,633,587	-	-	-	6,633,587
Miscellaneous expenses	30,666,960	10,377,310	16,635	41,060,905	4,905,732	(20,693)	-	45,945,944
Total Operating Expenses	914,427,475	934,456,886	470,081,791	2,318,966,152	(402,333,258)	1,909,444	-	1,918,542,338
Operating Income (Loss)	26,830,352	(322,571,801)	(448,491,645)	(744,233,094)	851,706,558	36,789,382	114	144,262,960
NONOPERATING REVENUES (EXPENSES)								
Earnings on investments	383,484,386	317,054,251	308,691,985	1,009,230,622	457,282	-	-	1,009,687,904
Other revenues	6,867,950	1,552,341	-	8,420,291	69	-	-	8,420,360
Interest expense	(419,644)	(419,644)	-	(839,288)	-	-	-	(839,288)
Total Nonoperating Revenues	389,932,692	318,186,948	308,691,985	1,016,811,625	457,351	-	-	1,017,268,976
Income (Loss) Before Transfers	416,763,044	(4,384,853)	(139,799,660)	272,578,531	852,163,909	36,789,382	114	1,161,531,936
Transfers in	-	-	301,422,494	301,422,494	-	1,850,407	-	303,272,901
Transfers out	(244,822,615)	(1,850,407)	-	(246,673,022)	-	(56,599,879)	-	(303,272,901)
Net Transfers	(244,822,615)	(1,850,407)	301,422,494	54,749,472	-	(54,749,472)	-	-
Changes in Net Assets	171,940,429	(6,235,260)	161,622,834	327,328,003	852,163,909	(17,960,090)	114	1,161,531,936
Net Assets (Deficit), July 1	380,971,141	978,842,580	235,967,334	1,595,781,055	(11,503,913,197)	46,634,986	1,008,577	(9,860,488,579)
Net Assets (Deficit), June 30	$ 552,911,570	$ 972,607,320	$ 397,590,168	$ 1,923,109,058	$ (10,651,749,288)	$ 28,674,896	$ 1,008,691	$ (8,698,956,643)

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2012

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	$ 924,128,319	$ 594,208,759	$ 19,606,617	$ 1,537,943,695	$ 456,780,790	$ 40,216,747	$ 430	$ 2,034,941,662
Payments to/for beneficiaries	(622,958,819)	(570,768,504)	(359,269,151)	(1,552,996,474)	(389,676,956)	(1,896,239)	-	(1,944,569,669)
Payments to employees	(95,912,676)	(90,663,213)	-	(186,575,889)	-	-	-	(186,575,889)
Payments to suppliers	(41,380,774)	(41,077,264)	-	(82,458,038)	-	-	-	(82,458,038)
Other	6,106,929	105,664	9	6,212,602	184,398	2,402	-	6,399,402
Net Cash Flows from Operating Activities	169,982,979	(108,194,558)	(339,662,525)	(277,874,104)	67,288,232	38,322,910	430	(172,262,532)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers in	40,514,582	-	247,094,166	287,608,748	-	24,035,105	-	311,643,853
Transfers out	(202,104,381)	(1,850,407)	(46,864,862)	(250,819,650)	-	(60,824,203)	-	(311,643,853)
Operating grants received	5,953,258	1,377,928	-	7,331,186	-	-	-	7,331,186
License fees collected	85,629	15,111	-	100,740	-	-	-	100,749
Net Cash Flows from Noncapital Financing Activities	(155,550,912)	(457,368)	200,229,304	44,221,024	-	(36,789,098)	-	7,431,926
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Interest paid	(448,688)	(448,688)	-	(897,376)	-	-	-	(897,376)
Principal payments on bonds payable	(1,602,500)	(1,602,500)	-	(3,205,000)	-	-	-	(3,205,000)
Acquisitions of capital assets	(2,005,964)	(3,154,062)	-	(5,160,026)	-	-	-	(5,160,026)
Net Cash Flows from Capital and Related Financing Activities	(4,057,152)	(5,205,250)	-	(9,262,402)	-	-	-	(9,262,402)
CASH FLOWS FROM INVESTING ACTIVITIES								
Receipt of interest	181,687,407	149,819,357	146,514,186	478,020,950	411,088	-	-	478,432,038
Receipt of dividends	1,967,130	3,234,556	1,641,229	6,842,915	-	-	-	6,842,915
Investment expenses	(1,465,491)	(1,320,893)	(1,037,875)	(3,824,259)	(130,916)	-	-	(3,955,175)
Proceeds from sale of investment securities	2,492,714,633	2,342,393,554	1,467,594,173	6,302,702,360	512,633,652	-	-	6,815,336,012
Purchases of investment securities	(2,686,366,073)	(2,380,030,717)	(1,475,315,703)	(6,541,712,493)	(579,999,487)	-	-	(7,121,711,980)
Net Cash Flows from Investing Activities	(11,462,394)	114,095,857	139,396,010	242,029,473	(67,085,663)	-	-	174,943,810
Net Increase (Decrease) in cash and cash equivalents	(1,087,479)	238,681	(37,211)	(886,009)	202,569	1,533,812	430	850,802
Cash & cash equivalents, Beginning of year	4,622,085	1,889,314	1,345,460	7,856,859	698,837	28,942,122	1,008,261	38,506,079
Cash & cash equivalents, End of year	$ 3,534,606	$ 2,127,995	$ 1,308,249	$ 6,970,850	$ 901,406	$ 30,475,934	$ 1,008,691	$ 39,356,881
Cash Flows from Operating Activities								
Operating Income (Loss)	$ 26,830,353	$ (322,571,801)	$ (448,491,645)	$ (744,233,093)	$ 851,706,558	$ 36,789,381	$ 114	$ 144,262,960
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities								
Depreciation	3,483,766	3,149,821	-	6,633,587	-	-	-	6,633,587
Change in Assets: Decrease (Increase)								
Receivables	25,221,382	(9,998,569)	44,949,048	60,171,861	12,841,182	7,885,933	316	80,899,292
Inventories	(62,392)	(62,392)	-	(124,784)	-	-	-	(124,784)
Change in Liabilities: Increase (Decrease)								
Claims and judgments payable	121,347,000	218,534,000	110,739,000	450,620,000	(797,581,000)	-	-	(346,961,000)
Accrued liabilities	(6,837,130)	2,754,383	(46,858,928)	(50,941,675)	321,492	(6,352,404)	-	(56,972,587)
Net Cash Flows from Operating Activities	$ 169,982,979	$ (108,194,558)	$ (339,662,525)	$ (277,874,104)	$ 67,288,232	$ 38,322,910	$ 430	$ (172,262,532)
Non Cash Investing, Capital and Financing Activities								
Increase (Decrease) in fair value of investments	$ 36,204,888	$ (148,285,772)	$ 91,648,704	$ (20,432,180)	$ 151,391	$ -	$ -	$ (20,280,789)

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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October 5, 2012

Statement of Actuarial Opinion
Regarding GAAP Reserves

State of Washington – Workers' Compensation Program

Identification

I, Rod Morris, am a Specialist Leader with the firm of Deloitte Consulting LLP. I am a Member of the American Academy of Actuaries and meet its qualification standards for rendering this Statement of Actuarial Opinion, and I am a Fellow of the Casualty Actuarial Society. I was appointed by the Washington State Auditor's Office to provide a Statement of Actuarial Opinion regarding the reasonableness of the State of Washington Workers' Compensation Program's ("the Program") carried GAAP loss and loss adjustment expense ("LAE") reserves as of June 30, 2012.

The Program is comprised of four Workers' Compensation Program Accounts: the Accident Account, the Medical Aid Account, the Pension Reserve Account, and the Supplemental Pension Account. The Program is currently administered by State of Washington Department of Labor & Industries ("the Department").

Scope

I have examined the reserves for the unpaid loss and LAE as shown in the Program's Comprehensive Annual Financial Report as of June 30, 2012.

In forming my opinion on the loss and LAE reserves, I relied upon data provided by Mr. William Vasek, the Department's Chief Actuary, his actuarial staff, and Sharon Elias, the Department's Financial Services Program Manager. I evaluated that data for reasonableness and consistency. My examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

My review was limited to the reserves listed below and did not include an analysis of any other balance sheet items. I have not examined the Program's assets and I have formed no opinion as to the validity or value of these assets.

Opinion

A summary of the Program's recorded loss and LAE reserves by account in its Comprehensive Annual Financial Report as of June 30, 2012 is as follows:

	Discounted
Accident Account	$4,449,829,000
Medical Aid Account	3,790,674,000
Pension Reserve Account	3,498,427,000
Total Basic Plan Loss and LAE Reserves	$11,738,930,000
Supplemental Pension Account	10,857,420,000
Total Program Loss and LAE Reserves	$22,596,350,000

In my opinion, the loss and LAE amounts listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2012:

(A) meet the requirements of the insurance laws of the State of Washington.

(B) are consistent with reserves computed in accordance with accepted loss reserving standards and principles.

(C) make a reasonable provision for all unpaid loss and loss expense obligations of the Program under the terms of its contracts and agreements.

Relevant Comments

A. Major Risk Factors

I have identified the major risk factors of the loss and LAE reserves to be the lack of diversity of exposure by line of business and by state, future medical trend, the discounting of the reserves, future cost of living adjustments and the impact of the 2011 Reforms. The potential impact of these risk factors is described in the following paragraphs. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on the Program's reserves.

By statute, the Program's direct exposure is limited to one line of business (workers' compensation) in one state (Washington). Therefore, any adverse trends affecting this line of business and/or state could have a material effect on the Program's loss and loss adjustment expense reserves. Such trends would include legislative benefit level changes that may have an effect on all open workers' compensation claims.

A major assumption in the analysis of the medical component of the workers' compensation reserves is the selection of a long-term medical trend factor to apply to future calendar year medical payments. Estimating medical trend has become increasingly difficult in recent years because it has been highly variable. In my opinion, there is a higher than normal degree of variability associated with the Program's medical loss reserves due to the uncertainty surrounding future medical trends and the expected length of medical payments.

The Department discounts the loss and LAE reserves to reflect the time value of money using an average annual interest that varies by account. The future payments of the Accident Account, Medical Aid Account, and Supplemental Pension Account are discounted using an annual interest rate of 2.0%. The future payments of the Pension Reserve Account are discounted using an annual interest rate of 6.5%. Changes to the interest rate used for discounting could result in material changes to the reserves.

A major assumption in the analysis of the Supplemental Pension Account is future cost of living adjustments and the implicit assumption that the State of Washington cost of living adjustments will be similar to cost of living adjustments approved by the Federal Government for Social Security retirement benefits. Future State of Washington cost of living adjustments different from those anticipated or that vary significantly from those approved by the Federal Government for Social Security retirement benefits could result in a material change in future costs and the adequacy of the reserves.

During 2011, the State of Washington passed two bills (SSB 5801 and EHB 2123) that promote getting workers back on the job faster and made other changes that impact costs. These changes are expected to reduce the system's overall costs in the future and also have an impact on past claims. These reforms are considered in the Department's unpaid claim liability as of June 30, 2012. Key changes included in the reforms are:

- Claim Resolution Structured Settlement Agreements
- Deductions for Prior PPD Awards from TPD Benefits
- Elimination of Interest on Unpaid PPD Award Schedules
- One-Year Freeze in COLA, Delay in First COLAs
- Washington Stay-At-Work Program
- Statewide Provider Network
- COHE Expansion

There is uncertainty related to the impact of these changes on the unpaid claim liability. The amount of savings contemplated in the unpaid claim liability as of June 30, 2012 totals $1.2 billion on a discounted basis.

B. Other Disclosures

Underwriting Pools or Associations

The Program participates in the Washington United States Longshore and Harbor Workers' Compensation Act Assigned Risk Plan ("WARP") which was established to provide USL&H workers' compensation insurance coverage for employers unable to purchase it through the normal private insurance market. The Program pays assessments to WARP and participates in any underwriting losses or surpluses incurred by WARP. Based on discussions with the Department, we understand that WARP is not currently in a deficit position. Therefore, the Program has not booked a reserve to account for any unpaid claim liability related to WARP.

We understand that the Program does not participate in any other voluntary or involuntary pools.

Reinsurance

The Program has no ceded or assumed reinsurance. Based on discussions with the Department's management and their description of the Program's ceded (and/or assumed) reinsurance, I am not aware of any reinsurance contract that either has been or should have been accounted for as retroactive reinsurance or financial reinsurance.

Discounting

The Department discounts the loss and LAE reserves to reflect the time value of money. The amount of discount is based on an actuarially derived projected payment pattern and the Department's two selected annual interest rates.

- For the Medical Aid Account, the Department's selected interest rate is 2.0%.
- For the Pension Reserve Account, the selected interest rate is 6.5%.
- For the Accident Account, a combination of two interest rates is used to discount the reserves. The future permanent total disability and fatal transfers made to the Pension Account are discounted assuming an interest rate of 6.5%. All other payments are discounted using a rate of 2.0%.
- For the Supplemental Pension Account, the selected interest rate is 2.0%

The average combined interest rate for the Program in total is approximately 2.97%, which is consistent with a recent average of risk free interest rates assuming a similar duration as the loss and loss adjustment expense payments of the Program but slightly higher than current risk free interest rates. As such, I believe the average combined interest rate is not unreasonable.

The interest rate used to discount the Accident Account future permanent total disability and fatal transfers made to the Pension Account remained the same this year at 6.5%. The interest rate used for all other future payments was reduced this year from 2.5% to 2.0%. The effect of reducing this interest rate was an increase in the discounted unpaid claim liability of $1.1 billion.

Major Assumption Changes

The Department lowered its long term inflation rate assumption this year from 2.5% to 2.0% to reflect more recent lower inflation rates. The effect of reducing the inflation rate was a decrease in the discounted unpaid claim liability of $1.5 billion.

C. General Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and LAE, it is necessary to project future loss and LAE payments. It is certain that actual future losses and LAE will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that such variance will not occur.

Further, my projections make no provision for the broadening of coverage by legislative action or judicial interpretation or for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Program's historical data base or which are not yet quantifiable.

This Statement of Actuarial Opinion regarding GAAP reserves is solely for the use of assessing the reasonableness of the GAAP loss and LAE reserves and is only to be relied upon by the Program and the State of Washington.

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October 5, 2012

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Narrative and Index

This section of the state of Washington Workers' Compensation Program presents detailed information as a supplement to the information in the basic financial statements, note disclosures, and required supplementary information to assist readers in assessing the Program's overall financial health.

Page

FINANCIAL TRENDS

These schedules contain trend information to help readers understand how the Program's financial performance and fiscal health have changed over time.

REVENUE CAPACITY

These schedules contain information to help readers assess the Program's most significant revenue sources.

DEBT CAPACITY

These schedules contain information to help readers assess the affordability of the Program's current level of outstanding debt and major obligations.

DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help readers understand the environment in which the Program operates.

OPERATING INFORMATION

These schedules offer operating data to help readers understand how the information in the Program's financial report relates to the services it provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the state of Washington's and the Workers' Compensation Program's Comprehensive Annual Financial Reports.

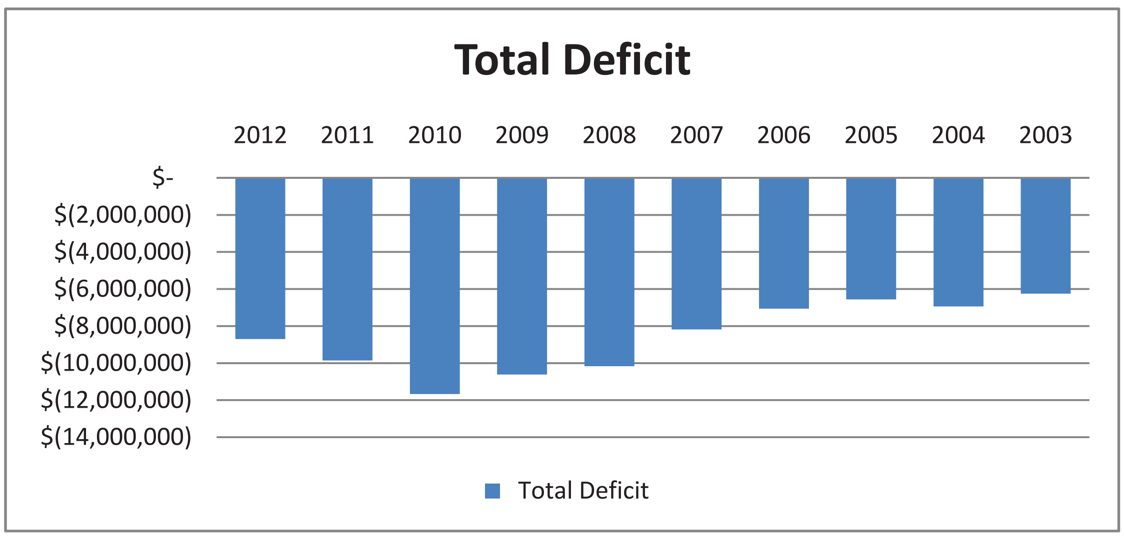
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Schedule 1 - Net Assets (Deficit) by Component
Last Ten Fiscal Years
(in thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	$ 52,708	$ 51,101	$ 41,251	$ 37,415	$ 37,838	$ 39,911	$ 33,011	$ 47,530	$ 37,359	$ 13,949
Unrestricted	(8,751,665)	(9,911,590)	(11,708,411)	(10,654,926)	(10,203,709)	(8,225,454)	(7,093,780)	(6,605,610)	(6,979,379)	(6,259,962)
Total Net Assets (Deficit) [1, 2]	$ (8,698,957)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,165,871)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)	$ (6,942,020)	$ (6,246,013)

[1] Starting in Fiscal Year 2009, the Self-Insured Overpayment Reimbursement Account was added to the Workers' Compensation Program.
[2] The Fiscal Year 2008 deficit is a restated amount.



Schedule 2 - Changes in Net Assets
Last Ten Fiscal Years
(in thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380	$ 1,286,965
Miscellaneous revenues	47,964	51,411	40,250	52,859	50,023	53,589	60,918	31,576	62,047	29,914
Total Operating Revenues	2,062,805	2,034,759	1,767,972	1,877,135	1,613,983	1,742,661	1,790,419	1,721,066	1,515,427	1,316,879
Operating Expenses										
Salaries and wages	136,406	135,979	137,085	134,295	133,773	120,244	116,951	111,995	108,557	105,358
Employee benefits	54,379	51,397	48,545	51,025	41,298	37,803	33,411	29,247	26,272	25,537
Personal services	8,013	6,366	4,521	6,449	7,533	3,800	2,945	4,586	2,641	5,565
Goods and services	69,194	72,443	67,817	73,594	72,568	70,814	64,227	66,145	60,248	62,597
Travel	3,779	3,401	3,339	3,314	4,183	3,482	3,477	3,180	2,796	2,661
Claims	1,594,192	888,159	3,971,059	2,180,781	3,727,966	3,585,725	1,998,393	2,165,729	2,172,545	2,373,605
Depreciation	6,634	8,037	7,991	10,003	10,281	8,220	25,551	3,202	6,261	442
Miscellaneous expenses	45,946	52,463	26,287	88,589	63,442	9,320	19,882	20,364	7,109	38,335
Total Operating Expenses	1,918,543	1,218,245	4,266,644	2,548,050	4,061,044	3,839,408	2,264,837	2,404,448	2,386,429	2,614,100
Operating Income (Loss)	144,262	816,514	(2,498,672)	(670,915)	(2,447,061)	(2,096,747)	(474,418)	(683,382)	(871,002)	(1,297,221)
Nonoperating Revenues (Expenses)										
Earnings on investments	1,009,688	981,927	1,441,576	216,035	466,963	966,548	(32,486)	1,065,226	171,169	1,117,289
Other revenues	8,421	9,294	7,878	7,477	7,785	6,978	7,600	5,449	7,480	6,428
Interest expense	(839)	(1,064)	(1,271)	(1,466)	(1,942)	(1,553)	(2,062)	(2,231)	(2,389)	(2,534)
Total Nonoperating Revenues (Expenses)	1,017,270	990,157	1,448,183	222,046	472,806	971,973	(26,948)	1,068,444	176,260	1,121,183
Income (Loss) Before Transfers	1,161,532	1,806,671	(1,050,489)	(448,869)	(1,974,255)	(1,124,774)	(501,366)	385,062	(694,742)	(176,038)
Transfers in	303,273	311,777	323,623	465,908	430,544	339,997	288,987	325,602	296,274	329,126
Transfers out	(303,273)	(311,777)	(322,783)	(468,679)	(430,544)	(339,997)	(290,310)	(326,724)	(297,539)	(334,616)
Net Transfers	-	-	840	(2,771)	-	-	(1,323)	(1,122)	(1,265)	(5,490)
Changes in Net Assets	1,161,532	1,806,671	(1,049,649)	(451,640)	(1,974,255)	(1,124,774)	(502,689)	383,940	(696,007)	(181,528)
Net Assets (Deficit), July 1 [1]	(9,860,489)	(11,667,160)	(10,617,511)	(10,165,871)	(8,185,543)	(7,060,769)	(6,558,080)	(6,942,020)	(6,246,013)	(6,064,485)
Net Assets (Deficit), June 30	$ (8,698,957)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,159,798)	$ (8,185,543)	$ (7,060,769)	$ (6,558,080)	$ (6,942,020)	$ (6,246,013)

[1] Fiscal Year 2009 deficit at beginning of year is a restated amount.

Schedule 3 - Revenues By Source
Last Ten Fiscal Years
(dollars in thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Premiums and Assessments										
State Fund Premiums:										
Accident	$ 1,060,670	$ 916,514	$ 767,915	$ 832,584	$ 939,558	$ 918,803	$ 869,177	$ 761,923	$ 669,232	$ 627,214
Medical Aid	596,421	614,714	601,087	637,975	332,781	592,633	615,687	628,821	520,547	408,097
Supplemental Pension	318,328	318,835	264,934	250,211	248,827	206,583	226,508	232,733	203,686	206,510
Net retrospective rating refunds	(171,509)	(75,011)	(112,494)	(81,255)	(98,125)	(190,285)	(161,893)	(116,729)	(91,570)	(99,899)
Dividend refunds	-	-	-	-	(33,560)	-	-	-	-	-
Total State Fund Premiums	1,803,910	1,775,052	1,521,442	1,639,515	1,389,481	1,527,734	1,549,479	1,506,748	1,301,895	1,141,922
Self-Insurance assessments	210,931	208,296	206,280	184,761	174,479	161,338	180,022	182,742	151,485	145,043
Total Premiums and Assessments	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380	$ 1,286,965
Average Standard Premium Rates [1] (per hour worked) - Effective from January 1 to December 31										
Accident	0.3414	0.3347	0.2579	0.2468	0.2424	0.2538	0.2672	0.2396	0.2326	0.2084
Medical Aid [2]	0.1834	0.1827	0.2037	0.1879	0.1821	0.1648	0.1648	0.1843	0.1757	0.1610
Supplemental Pension	0.0930	0.1075	0.0967	0.0834	0.0779	0.0665	0.0621	0.0738	0.0717	0.0681
Stay At Work [3]	0.0071	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Average Standard Premium Rates (composite rate)	0.6249	0.6249	0.5583	0.5181	0.5024	0.4851	0.4941	0.4977	0.4800	0.4375
Employer portion	0.4832	0.4798	0.4081	0.3825	0.3724	0.3695	0.3807	0.3687	0.3563	0.3230
Worker portion	0.1418	0.1451	0.1502	0.1357	0.1300	0.1157	0.1135	0.1291	0.1237	0.1146
State fund average hourly wage	$ 25.59	$ 25.07	$ 24.20	$ 23.69	$ 23.24	$ 22.47	$ 21.40	$ 20.29	$ 19.61	$ 19.49
Composite rate per $100 payroll [4]	$ 2.44	$ 2.49	$ 2.31	$ 2.19	$ 2.16	$ 2.16	$ 2.31	$ 2.45	$ 2.45	$ 2.24
Investments [5]										
Investment income (interest and dividend)	$ 488,831	$ 501,382	$ 501,143	$ 546,021	$ 601,649	$ 610,844	$ 559,732	$ 503,461	$ 473,157	$ 489,124
Investment balances	$ 13,321,822	$ 12,512,715	$ 11,894,375	$ 10,886,051	$ 11,019,207	$ 10,983,413	$ 10,170,473	$ 10,185,293	$ 9,161,021	$ 9,170,964
Average rate of return	3.7%	4.0%	4.2%	5.0%	5.5%	5.6%	5.5%	4.9%	5.2%	5.3%

[1] These rates are for State Fund firms. Past average standard premium rates change annually to reflect the current distribution of risk by class.
[2] Medical Aid premium rate was reduced to zero from 7/1/2007 through 12/31/07 as a result of the rate holiday.
[3] Stay at Work rate started in Calendar Year 2012.
[4] This figure equals the composite rate divided by State Fund average hourly wage.
[5] These amounts reflect only investments managed by Washington State Investment Board.

Sources: Washington State Agency Financial Reporting System
Washington Department of Labor & Industries Actuarial Services

Schedule 4 - Employer Accounts
Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Employers insured	166,000	163,000	163,000	168,000	171,000	168,000	165,000	161,000	158,000	156,000
Workers covered	2,420,000	2,360,000	2,330,000	2,460,000	2,570,000	2,500,000	2,400,000	2,300,000	2,200,000	1,820,000
Hours reported	3,183,000,000	3,100,000,000	3,065,000,000	3,232,000,000	3,380,000,000	3,287,000,000	3,200,000,000	3,049,406,000	2,911,954,000	2,870,637,000
Self-insured employers	365	360	363	369	382	377	382	381	372	373
Workers covered under self-insured employers	845,085	821,000	826,000	830,000	870,000	830,000	841,000	830,000	799,000	764,000
Industry Classifications - NAICS Sector										
Construction	21,191	21,631	21,963	25,051	27,244	27,184	26,244	24,810	23,822	23,577
Prof., scientific, and technical services	19,960	19,278	17,839	18,428	18,677	18,144	17,506	16,626	15,796	15,620
Retail trade	16,627	16,385	15,779	16,892	17,616	17,844	18,158	18,374	18,638	18,877
Other services (except public administration)	16,613	16,391	15,660	16,115	16,347	16,088	15,992	15,900	15,607	15,563
Health care and social assistance	14,929	14,579	13,929	14,199	14,156	13,904	13,616	13,294	13,032	12,751
Accommodation and food services	14,754	14,642	13,807	14,367	14,641	14,477	14,141	13,777	13,445	12,905
Administrative and support services	10,459	10,018	9,447	9,928	10,261	10,083	9,832	9,491	9,166	8,931
Wholesale trade	10,450	10,218	9,163	9,328	9,431	9,337	9,066	8,799	8,572	8,457
Agriculture, forestry, fishing, and hunting	7,238	7,258	7,284	7,690	7,905	8,157	8,416	8,625	9,101	9,296
Manufacturing	6,717	6,694	6,615	6,993	7,229	7,261	7,290	7,226	7,175	7,278
Real estate, rental and leasing	6,627	6,719	6,563	7,117	7,372	7,099	7,004	6,830	6,609	6,412
Transportation and warehousing	5,569	4,095	3,833	4,013	4,211	4,103	4,019	3,884	3,831	3,810
Finance and insurance	5,073	5,110	4,998	5,437	5,701	5,694	5,496	5,226	4,998	4,819
Arts, entertainment, and recreation	2,655	2,568	2,418	2,508	2,585	2,512	2,485	2,407	2,361	2,295
Education services	2,618	2,487	2,177	2,161	2,126	2,062	1,952	1,879	1,819	1,766
Information	2,107	1,836	1,746	1,880	1,933	1,935	1,852	1,685	1,686	1,732
Public administration	1,030	1,040	1,042	1,063	1,058	1,051	1,043	1,046	1,040	1,029
Unclassified establishments	382	1,512	8,016	4,537	1,888	572	438	455	449	433
Utilities	352	344	338	345	351	342	352	355	354	359
Mining	180	178	176	200	210	209	208	214	223	223
Mgmt. of companies and enterprises	133	118	103	99	102	106	92	79	72	67
Total Employer Accounts	165,664	163,101	162,896	168,351	171,044	168,164	165,202	160,982	157,796	156,200

Note: The data is a snapshot of the fiscal year (July 1 – June 30) as of the first week of the following October.

Sources: Washington State Department of Labor & Industries Actuarial Services
Washington State Department of Labor & Industries Self Insurance Certification Services

Schedule 5 - Ratios of Outstanding Debt
Last Ten Fiscal Years
(dollar in thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Outstanding Debt:										
General obligation bonds [1]	$ 14,875	$ 18,080	$ 22,110	$ 25,930	$ 29,555	$ 33,080	$ 36,825	$ 39,870	$ 42,760	$ 45,475
Debt Ratios:										
Principal paid on total debt	$ 3,205	$ 4,030	$ 3,820	$ 3,625	$ 3,525	$ 3,370	$ 3,045	$ 2,890	$ 2,715	$ 2,575
Ratio of principal paid to total debt	21.5%	22.3%	17.3%	14.0%	11.9%	10.2%	8.3%	7.2%	6.3%	5.7%
Interest paid on total debt	$ 897	$ 1,143	$ 1,346	$ 1,537	$ 1,584	$ 1,733	$ 2,061	$ 2,231	$ 2,388	$ 2,533
Ratio of interest paid to total debt	6.0%	6.3%	6.1%	5.9%	5.4%	5.2%	5.6%	5.6%	5.6%	5.6%
Premiums and assessments earned	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960	$ 1,689,072	$ 1,729,501	$ 1,689,490	$ 1,453,380	$ 1,286,965
Ratio of total debt to premiums and assessments earned	0.7%	0.9%	1.3%	1.4%	1.9%	2.0%	2.1%	2.4%	2.9%	3.5%

[1] In Fiscal Year 2007, bond balances were further reduced as a result of debt refunding in addition to principal payments.

Source: Washington State Agency Financial Reporting System

Schedule 6 - Schedule of Changes in Claims Payable
Last Ten Fiscal Years
(in thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 22,943,311	$ 24,025,832	$ 22,006,789	$ 21,887,148	$ 19,746,492	$ 17,755,100	$ 17,278,895	$ 16,591,098	$ 15,863,852	$ 14,883,099
Incurred claims and claim adjustment expenses:										
Provision for insured events of the current fiscal year	1,823,525	1,950,485	2,204,709	2,225,312	2,273,716	2,138,397	2,449,650	3,315,505	1,772,548	1,636,136
Increase (decrease) in provision for insured events of prior fiscal years	(92,184)	(933,553)	1,895,787	109,437	1,749,155	1,582,629	(318,243)	(1,025,582)	494,958	853,411
Total incurred claims and claim adjustment expenses	1,731,341	1,016,932	4,100,496	2,334,749	4,022,871	3,721,026	2,131,407	2,289,923	2,267,506	2,489,547
Payments:										
Claims and claim adjustment expenses attributable to:										
Events of the current fiscal year	283,763	288,812	297,520	327,536	316,086	294,879	277,626	259,673	244,334	232,797
Insured events of prior fiscal years	1,794,539	1,810,641	1,783,933	1,730,293	1,566,129	1,434,755	1,377,576	1,342,453	1,295,926	1,275,997
Total payments	2,078,302	2,099,453	2,081,453	2,057,829	1,882,215	1,729,634	1,655,202	1,602,126	1,540,260	1,508,794
Unpaid loss and loss adjustment expenses at end of fiscal year [1]	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,164,068	$ 21,887,148	$ 19,746,492	$ 17,755,100	$ 17,278,895	$ 16,591,098	$ 15,863,852

[1] Claims payable liabilities are reported net of recoveries starting in Fiscal Year 2010. In prior years, they were grossed up to include recoveries.

Source: Washington Department of Labor & Industries Actuarial Services

Schedule 7 - Washington State Population and Components of Change
Last Ten Calendar Years
(in thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Population	6,817.8	6,767.9	6,724.5	6,672.2	6,608.3	6,525.1	6,420.3	6,298.8	6,208.5	6,126.9
Net Increase	49.9	43.4	52.4	63.9	83.2	104.8	121.4	90.3	81.6	67.6
Percent change	0.7%	0.6%	0.8%	1.0%	1.3%	1.6%	1.9%	1.5%	1.3%	1.1%
Components of change:										
Births	84.1	85.3	88.2	89.8	89.6	87.8	83.2	81.8	81.0	79.1
Deaths	48.6	48.0	47.7	48.1	47.9	46.2	45.3	45.6	46.0	44.7
Net migration	14.4	6.1	11.8	22.2	41.5	63.2	83.6	54.1	46.7	33.2

Note: Washington State population estimates are as of April 1 of each year. Population estimates for 2009 through 2003 have been revised to reflect intercensal estimates. Intercensal estimates are estimates of population between official census dates. Intercensal estimates are more accurate than postcensal estimates because they are bracketed on both sides by decennial or state-certified special census counts. Estimates for 2010 have been replaced with the 2010 U.S. Census Bureau count. Estimates for 2011 and 2012 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Source: Washington State Office of Financial Management, Forecasting Division

Schedule 8 - Washington State Personal Income
Last Ten Calendar Years
(dollars in billions, except per capita)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Personal income	$ 300	$ 283	$ 277	$ 289	$ 273	$ 252	$ 230	$ 222	$ 207	$ 200
Percent change	6%	2%	(4%)	6%	8%	10%	4%	7%	4%	2%
Per capita	$ 43,878	$ 42,024	$ 41,504	$ 44,106	$ 42,192	$ 39,570	$ 36,766	$ 35,998	$ 33,909	$ 33,126

Note: The Bureau of Economic Analysis periodically revises its personal income data for periods up to 10 years.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Schedule 9 - Washington State Unemployment Rates
Last Ten Calendar Years
(in thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Washington State Unemployment Rates										
Civilian labor force	3,485	3,516	3,535	3,479	3,393	3,319	3,259	3,200	3,146	3,105
Less Employed	3,166	3,167	3,206	3,286	3,237	3,155	3,080	3,000	2,913	2,877
Total unemployed	319	349	329	193	156	164	179	200	233	228
Unemployment rate	9.2%	9.9%	9.3%	5.5%	4.6%	5.0%	5.5%	6.3%	7.4%	7.3%

Note: The Washington State Economic and Revenue Forecast Council periodically revises its civilian labor force and employment data for periods up to 5 years.

Source: Washington State Economic and Revenue Forecast, September 2012

Schedule 10 - Washington State Principal Employers by Industry
Last Calendar Year and Nine Years Ago

	2011 Annual Averages			2002 Annual Averages		
Industry [1]	**Number of Employees [2]**	**Percent of Total**	**Number of Employers**	**Number of Employees [2]**	**Percent of Total**	**Number of Employers**
Government	519,251	18.3%	2,098	490,324	18.8%	2,017
Health care and social assistance	327,373	11.5%	14,379	260,778	9.9%	13,028
Retail trade	307,676	10.8%	13,959	297,953	11.5%	16,040
Manufacturing	265,656	9.3%	6,768	280,964	10.8%	7,738
Accommodation and food services	222,164	7.8%	12,798	199,896	7.7%	11,595
Professional, scientific, and technical services	162,889	5.7%	18,392	131,001	5.0%	16,191
Administrative and support services [3]	136,020	4.8%	9,418	118,810	4.6%	8,814
Other services	132,114	4.6%	64,034	74,461	2.9%	10,857
Construction	126,993	4.5%	20,075	142,285	5.5%	24,142
Wholesale trade	119,854	4.2%	12,945	111,634	4.3%	12,855
Information	103,561	3.6%	2,470	92,715	3.6%	2,627
Agriculture, forestry, fishing, and hunting	89,570	3.1%	7,082	76,389	2.9%	9,457
Finance and insurance	87,144	3.1%	5,401	96,701	3.7%	5,500
Transportation and warehousing	80,673	2.8%	3,949	78,224	3.0%	4,194
Arts, entertainment, and recreation	45,000	1.6%	2,402	40,715	1.6%	2,335
Real estate, rental and leasing	43,149	1.5%	6,058	45,009	1.7%	6,378
Education services	35,116	1.2%	2,497	26,632	1.0%	1,871
Mgmt. of companies and enterprises	33,221	1.2%	619	30,186	1.2%	577
Utilities	4,827	0.2%	233	4,461	0.2%	242
Mining	2,142	0.1%	164	2,965	0.1%	182
Total average employment [4]	2,844,393	100%	205,741	2,602,103	100%	156,640

[1] Industry classifications are based on North American Industry Classification System (NAICS) codes. The state of Washington is legally prohibited from disclosing the names of individual employers. The information in this table is intended to assist readers in understanding the degree of concentration in the state's employment base.

[2] The number of employees is based on annual averages and represents only employees covered by unemployment insurance.

[3] Employment classified under administrative and support services include waste management and remediation services.

[4] Total employment is based on annual averages and may not include private firms or disclosure of individual employers.

Source: Washington State Employment Security Department, Quarterly Census of Employment and Wages

Schedule 11 - Washington State Annual Average Wage Rates by Industry
Last Ten Calendar Years

	Annual Average Wages [2]									
Industry [1]	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Information	$ 119,968	$ 109,777	$ 105,715	$ 104,053	$ 96,240	$ 91,081	$ 82,647	$ 78,918	$ 104,042	$ 102,309
Management of companies and enterprises	102,009	95,731	87,642	87,431	86,867	85,031	75,236	75,776	69,743	67,659
Utilities	82,058	77,591	84,410	76,945	73,736	70,404	65,615	63,915	59,570	59,284
Professional, scientific, and technical services	77,178	75,376	71,837	70,120	70,104	63,687	61,181	58,486	56,933	54,645
Finance and insurance	73,154	70,137	71,304	72,653	70,044	66,684	62,382	62,091	57,954	53,944
Manufacturing	68,065	64,925	62,931	61,260	59,568	58,196	54,953	51,788	50,546	50,901
Wholesale trade	65,831	63,348	61,569	61,041	59,345	56,572	53,458	52,027	49,070	47,774
Mining	58,871	55,654	52,981	54,718	58,056	54,924	52,592	51,454	49,517	48,110
Government	52,174	51,394	50,420	48,705	46,914	44,745	42,915	41,756	40,546	39,360
Construction	52,304	51,127	51,043	49,443	46,783	43,746	41,482	40,171	39,468	39,396
Transportation and warehousing	49,628	47,743	46,522	45,433	45,320	44,078	42,798	41,780	40,219	39,501
Health care and social assistance	45,852	44,673	43,561	41,424	39,474	37,654	36,162	34,919	33,444	32,144
Administrative and support services [3]	42,942	41,466	39,571	37,536	36,463	34,533	33,649	33,466	33,314	30,806
Real estate, rental and leasing	39,816	38,359	36,777	36,669	36,334	34,948	32,744	30,582	29,552	28,562
Education services	35,576	35,158	34,505	33,550	32,076	30,901	29,860	28,453	27,738	27,618
Retail trade	30,917	30,021	29,356	29,268	29,082	28,174	27,330	26,602	26,047	25,508
Arts, entertainment, and recreation	25,023	25,121	25,527	26,949	27,643	27,139	25,724	24,331	22,622	21,908
Other services	24,549	24,227	24,881	25,637	24,385	23,009	22,010	26,467	25,692	25,336
Agriculture, forestry, fishing, and hunting	25,097	24,034	23,675	24,491	23,413	22,239	21,122	20,495	20,152	19,909
Accommodation and food services	18,062	17,632	17,063	16,430	16,019	15,469	15,014	14,765	14,309	13,950

[1] Industry classifications and wages are based on North American Industry Classification System (NAICS) codes.

[2] Wages include only employment covered by unemployment insurance. Wages may not include private firms or disclosure of individual employers.

[3] Wages classified under administrative and support services include waste management and remediation services.

Source: Washington State Employment Security Department, Quarterly Census of Employment and Wages

Schedule 12 - Demographics of Accepted Claims
Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Male Injured Workers	67%	66%	66%	68%	70%	70%	70%	71%	70%	70%
Female Injured Workers	33%	34%	34%	32%	30%	30%	30%	29%	30%	30%
Average Age of Injured Workers	38	38	38	38	37	37	37	37	37	37
Workers Younger than 30	27%	28%	29%	32%	34%	35%	34%	34%	33%	33%
Workers 30 to 50	46%	47%	48%	48%	47%	48%	50%	51%	52%	52%
Workers Older than 50	24%	23%	22%	21%	19%	17%	17%	16%	16%	16%
Percent of Workers Age Unknown	2%	2%	1%	0%	0%	0%	0%	0%	0%	0%

Notes:

Because of rounding, some columns may not add up to 100%.

The data is a snapshot of the fiscal year (July 1 – June 30) as of the following September. Before Fiscal Year 2012, the data is as of the first week of the following October.

Source: Washington State Department of Labor & Industries Research and Data Services

Schedule 13 - Number of Employees By Division
Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Regional Office 1	59	56	57	59	58	57	58	98	89	92
Regional Office 2	102	102	102	96	92	90	94	174	157	148
Regional Office 3	54	56	59	60	59	55	58	95	92	94
Regional Office 4	74	70	72	65	64	69	71	113	105	102
Regional Office 5	71	71	71	70	70	70	74	113	107	106
Regional Office 6	40	41	42	43	44	44	42	73	72	72
Administrative Services	121	169	172	171	176	174	171	187	218	230
DOSH	341	330	335	339	332	322	333	115	115	114
Director's Office	87	92	93	88	89	82	80	66	65	62
Insurance Services	990	945	944	954	977	980	994	994	989	979
Office of Human Resources	46	45	45	47	50	47	51	47	44	47
Fraud Prevention & Compliance	85	83	84	74	79	74	75	52	0	0
Information Services	173	171	178	189	194	194	175	190	172	179
Specialty Compliance Services	38	37	40	36	29	27	25	17	17	15
New Legislation	58	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	2,339	2,268	2,294	2,291	2,313	2,285	2,301	2,334	2,242	2,240

Note: The above number of employees is based on Full-Time Equivalents. A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,088 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in the Department of Labor & Industries. It is a computed average number of employees based upon cumulative FTE staff months during one fiscal year or cumulative

Source: Washington State Agency Financial Reporting System

Schedule 14 - Capital Asset Indicators - Business Locations
Last Ten Calendar Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Number of other offices	2	1	1	1	1	1	0	0	0	0
Number of field offices*	18	19	19	19	19	19	19	21	21	21
Number of warehouses	1	1	1	1	1	1	1	1	1	2
Number of labs	1	1	1	1	1	1	1	1	1	1

*Field offices do not include Tumwater Region 4 field office in Tumwater headquarters.

Source: Washington State Department of Labor & Industries Facilities Services

Schedule 15 - Claims Statistics and Five Most Frequent Injuries
Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Claims Statistics:										
Number of Claims Filed [1]	101,524	100,690	102,734	116,616	136,791	140,308	140,887	139,359	137,835	140,709
Number of Claims Accepted [1, 2]	84,863	81,274	86,184	102,440	119,788	121,769	124,391	121,217	121,201	125,162
Number of Claims Denied [1, 2]	13,857	12,762	12,703	14,964	15,748	15,171	15,210	15,977	16,050	17,373
Fatal Pensions Awarded	35	59	45	42	63	54	66	63	73	55
Total Permanent Disability Pensions Granted	925	1,036	937	1,612	1,109	1,557	840	952	967	1,588
Permanent Partial Disability Awards Granted	11,524	11,782	11,452	12,684	12,316	12,621	12,535	13,309	14,612	14,826
New Time-loss (Wage Replacement) Claims [3]	20,205	21,377	22,604	26,295	28,593	29,416	29,615	28,521	29,500	28,296
Medical-only Claims Accepted	67,539	63,308	66,885	80,171	95,052	96,505	97,964	96,289	94,003	98,586
Retraining Plans Completed	1,665	1,667	1,229	1,142	1,694	1,763	1,093	1,058	1,042	772
Total Days Paid for Lost Work	7,850,982	8,099,675	8,121,263	7,926,800	7,488,000	7,540,000	7,480,000	7,240,000	7,190,000	7,290,000
Five Most Frequent Injuries: [4]										
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	10,829	10,227	12,026	13,486	16,192	15,236	N/A	N/A	N/A	N/A
Finger(s): Open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	8,761	7,974	8,641	10,837	12,871	13,186	N/A	N/A	N/A	N/A
Face: Surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	3,775	3,320	3,753	5,020	6,153	6,261	N/A	N/A	N/A	N/A
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip).	3,484	3,362	3,774	4,356	4,460	4,042	N/A	N/A	N/A	N/A
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	0	3,314	0	0	0	4,456	N/A	N/A	N/A	N/A
Shoulder: Traumatic injuries to muscles, tendons, ligaments, joints, etc. including clavicle, scapula (injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	3,457	0	3,501	4,053	4,235	0	N/A	N/A	N/A	N/A

Note: The data is a snapshot of the fiscal year (July 1 – June 30) as of the following September. Before Fiscal Year 2012, the data is as of the first week of the following October.

[1] Provisional Claims: Number of Claims Accepted plus Number of Claims Denied do not equal Number of Claims Filed, as there are claims in "provisional" status where the decision to accept or deny has yet to be made.

[2] Counts of accepted and denied claims reflect actions in that year regardless of when claim was filed.

[3] Counts of new time-loss (wage replacement) claims reflect actions in that year regardless of when claim was filed.

[4] L&I adopted the national coding system for injury categories starting Fiscal Year 2007. Data for these injury categories is not available in prior years.

Source: Washington State Department of Labor & Industries Research and Data Services

Schedule 16 - Risk Classes with Greatest Number of Ultimate Claims
Last Eight Fiscal Years

Risk Class	Risk Class Description	2012	2011	2010	2009	2008	2007	2006	2005
3905	Restaurants and Taverns	6,731	6,577	6,730	7,185	8,533	8,810	8,936	8,975
4803	Orchards	2,582	2,192	2,017	2,249	1,964	2,229	2,053	2,202
6509	Boarding Homes and Retirement Centers	2,558	2,476	2,517	2,421	2,386	2,320	2,437	2,493
6108	Nursing Homes	2,159	2,284	2,317	2,426	2,684	2,696	2,721	2,780
6109	Physicians & Medical Clinics	2,060	2,230	2,167	2,257	2,405	2,355	2,357	2,332
4906	Colleges & Universities	1,769	1,714	1,772	1,887	1,916	1,934	1,920	2,040
3411	Automobile Dealers, Rentals and Service Shops	1,510	1,618	1,611	1,793	2,213	2,320	2,467	2,549
3402	Machine Shops and Machinery Mfg., Not Otherwise Classified (N.O.C.)	1,356	1,270	1,115	1,560	2,075	1,925	2,033	2,240
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,351	1,411	1,333	1,500	1,482	1,419	1,475	1,377
2104	Fruit & Vegetable Packing - Fresh	1,324	1,271	1,305	1,417	1,374	1,470	1,449	1,453
4910	Property and Building Management Services	1,284	1,244	1,266	1,340	1,416	1,460	1,488	1,536
0510	Wood Frame Building Construction	1,157	1,230	1,348	1,996	3,151	4,018	4,451	4,016
6309	Hardware, Auto Parts and Sporting Good Stores	1,093	1,045	1,064	1,229	1,505	1,517	1,564	1,546
1102	Trucking, N.O.C.	1,079	1,171	1,153	1,261	1,470	1,672	1,650	1,621
4904	Clerical Office, N.O.C.	1,062	1,114	1,114	1,443	1,561	1,693	1,732	1,805
5307	State Government - All Other Employees, N.O.C.	1,054	1,208	1,182	1,261	1,267	1,266	1,357	1,395
6406	Retail Stores, N.O.C.	995	1,000	1,210	1,370	1,506	1,581	1,650	1,591
4905	Motels and Hotels	985	1,035	972	997	1,142	1,141	1,116	1,121
1101	Parcel and Package Delivery Service	978	947	898	1,022	1,337	1,404	1,394	1,370
6602	Janitorial Service	970	925	823	967	1,006	1,085	1,120	1,055
6511	Chore Services	902	959	931	910	910	986	1,056	836
0601	Electrical Wiring: Buildings and Structures	875	926	951	1,532	1,815	1,811	1,735	1,715
0516	Carpentry, N.O.C.	875	774	867	1,194	1,640	1,656	1,501	1,340
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	787	695	701	919	1,249	1,297	1,356	1,564
6402	Supermarkets	778	826	884	968	1,047	1,056	1,106	1,228
0306	Plumbing	771	766	799	1,197	1,466	1,487	1,466	1,389
2903	Wood Products Manufacturing, N.O.C.	741	692	722	824	1,397	1,620	1,692	1,578
0101	Excavation and Grading, N.O.C.	736	781	834	1,035	1,401	1,547	1,430	1,226
0307	HVAC Systems, Installation, Service and Repair	723	801	816	1,120	1,370	1,533	1,578	1,558
6303	Sales Personnel - Outside, N.O.C.	722	773	892	885	1,011	1,048	1,025	1,076
0507	Roofing Work - Construction and Repair	646	721	706	840	1,071	1,265	1,120	1,052
0518	Non-Wood-Frame Building Construction	590	613	701	1,442	1,925	1,683	1,323	1,161

Notes:
These claim counts are estimated by fiscal accident year from counts reported through June 30 of each fiscal year. Estimates are not updated on this exhibit. The claims are "allowed" State Fund claims which have been accepted for benefits. Data is not readily available prior to 2005.

The Risk Class is that assigned to the claim.

Per Washington Administrative Code (WAC) 296-17-31002, a Risk Class is defined as: "A grouping of businesses or industries having common or similar exposure to loss without regard to the separate employments, occupations or operations which are normally associated with the business or industry. Basic classifications describe a specific type of business operation or industry such as mechanical logging, sawmills, aircraft manufacturing, or restaurants. In most business operations some workers are exposed to very little hazard, while others are exposed to greater hazard. Since a basic classification reflects the liability (exposure to hazard) of a given business or industry, all the operations and occupations that are common to an industry are blended together and included in the classification."

Source: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Workers' Compensation Program Comprehensive Annual Financial Report

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FY13-88 [10-2012]